

ENTERPRISE FINANCIAL SERVICES CORP  
Form 10-K  
February 27, 2015

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D. C. 20549  
FORM 10-K

Annual Report Pursuant to Section 13 or 15(d) of the Securities and Exchange Act of 1934  
For the fiscal year ended December 31, 2014.

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

Commission file number 001-15373

ENTERPRISE FINANCIAL SERVICES CORP

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

\_\_\_\_\_  
Securities registered pursuant to Section 12(b) of the Act:  
(Title of class)  
Common Stock, par value \$.01 per share  
Securities registered pursuant to Section 12(g) of the Act:  
None

(Name of each exchange on which registered)  
NASDAQ Global Select Market

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.  
Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.  
Yes  No

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 (or for such shorter period that the registrant was required to file such reports), 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

]

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 the 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 [X] Non-accelerated filer [  ] Smaller reporting company [  ]

(Do not check if a smaller reporting company)

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

The aggregate market value of the common stock held by non-affiliates of the Registrant was approximately \$338,461,720 based on the closing price of the common stock of \$18.06 as of the last business day of the registrant's most recently completed second fiscal quarter (June 30, 2014) as reported by the NASDAQ Global Select Market.

As of February 23, 2015, the Registrant had 19,838,840 shares of outstanding common stock.

#### DOCUMENTS INCORPORATED BY REFERENCE

Certain information required for Part III of this report is incorporated by reference to the Registrant's Proxy Statement for the 2015 Annual Meeting of Shareholders, which will be filed within 120 days of December 31, 2014.

ENTERPRISE FINANCIAL SERVICES CORP  
 2014 ANNUAL REPORT ON FORM 10-K  
 TABLE OF CONTENTS

|  | Page       |
|--|------------|
| <b>PART I</b>  |            |
| Item 1. Business   | <u>1</u>   |
| Item 1A. Risk Factors  | <u>10</u>  |
| Item 1B. Unresolved Staff Comments   | <u>17</u>  |
| Item 2. Properties   | <u>17</u>  |
| Item 3. Legal Proceedings  | <u>17</u>  |
| Item 4. Mine Safety Disclosures  | <u>18</u>  |
| <b>PART II</b>   |            |
| Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities | <u>19</u>  |
| Item 6. Selected Financial Data  | <u>21</u>  |
| Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations                        | <u>23</u>  |
| Item 7A. Quantitative and Qualitative Disclosures About Market Risk  | <u>56</u>  |
| Item 8. Financial Statements and Supplementary Data  | <u>57</u>  |
| Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure                         | <u>114</u> |
| Item 9A. Controls and Procedures   | <u>114</u> |
| Item 9B. Other Information   | <u>115</u> |
| <b>PART III</b>  |            |
| Item 10. Directors, Executive Officers and Corporate Governance  | <u>116</u> |
| Item 11. Executive Compensation  | <u>116</u> |
| Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters              | <u>116</u> |
| Item 13. Certain Relationships and Related Transactions, and Director Independence                                   | <u>116</u> |
| Item 14. Principal Accountant Fees and Services  | <u>116</u> |
| <b>PART IV</b>   |            |
| Item 15. Exhibits and Financial Statement Schedules  | <u>117</u> |
| Signatures   | <u>121</u> |

#### 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 are 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,” “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 Part I-Item 1A: “Risk Factors,” 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).

## PART 1

### ITEM 1: BUSINESS

#### General

Enterprise Financial Services Corp (“we” or the “Company” or “Enterprise”), a Delaware corporation, is a financial holding company headquartered in St. Louis, Missouri. We are the holding company for a full service banking subsidiary, Enterprise Bank & Trust (the “Bank”), offering banking and wealth management services to individuals and business customers primarily located in the St. Louis, Kansas City and Phoenix metropolitan markets. Our executive offices are located at 150 North Meramec, Clayton, Missouri 63105 and our telephone number is (314) 725-5500.

#### Available Information

Our website is [www.enterprisebank.com](http://www.enterprisebank.com). Various reports provided to the SEC, including our annual reports, quarterly reports, current reports and proxy statements are available free of charge on our website. These reports are made available as soon as reasonably practicable after they are electronically filed with or furnished to the SEC. Our filings with the SEC are also available on the SEC's website at <http://www.sec.gov>.

#### Business Strategy

Our stated mission is “to guide our clients to a lifetime of financial success.” We have established an accompanying corporate vision “to build an exceptional company that clients value, shareholders prize and where our associates flourish.” These tenets are fundamental to our business strategies and operations.

Our general business strategy is to generate superior shareholder returns by providing comprehensive financial services primarily to private businesses, their owner families, and other success-minded individuals through banking and wealth management lines of business. The Company has one segment for purposes of its financial reporting.

The Company offers a broad range of business and personal banking services, and wealth management services. Lending services include commercial and industrial, commercial real estate, real estate construction and development, residential real estate, and consumer loans. A wide variety of deposit products and a complete suite of treasury management and international trade services complement our lending capabilities. The Company also provides trust

services and Federal and Missouri State tax credit brokerage activities. Enterprise Trust, a division of the Bank (“Enterprise Trust” or “Trust”) provides financial planning, estate planning, investment management and trust services to businesses, individuals, institutions, retirement plans and non-profit organizations. Tax credit brokerage activities consist of the acquisition of tax credits and sale of these tax credits to clients.

Key components of our strategy include a focused and relationship-oriented distribution and sales approach, with an emphasis on growing fee income and niche businesses, prudent credit and interest rate risk management, advanced technology and controlled expense growth.

**Building long-term client relationships** - Our growth strategy is largely client relationship driven. We continuously seek to add clients who fit our target market of business owners, professionals, and associated relationships. Those relationships are maintained, cultivated and expanded over time by trained, experienced banking officers and wealth advisors. We fund loan growth primarily with core deposits from our business and professional clients in addition to consumers in our branch market areas. This is supplemented by borrowing from the Federal Home Loan Bank of Des Moines (the “FHLB”), the Federal Reserve, and by issuing brokered certificates of deposits.

**Growing fee income business** - Enterprise Trust offers a wide range of fiduciary, investment management and financial advisory services. We employ attorneys, certified financial planners, estate planning professionals and other investment professionals. Enterprise Trust representatives assist clients in defining lifetime goals and designing plans to achieve them, consistent with the Company's long-term relationship strategy. The Bank offers a broad range of Treasury Management products and services that benefit businesses ranging from large national clients to the smallest local merchants. Customized solutions and special product bundles are available to clients of all sizes. Responding to ever increasing needs for tightened security and improved functional efficiency, the Bank continues to offer robust treasury systems that employ advanced mobile technology and fraud detection/mitigation. The Bank also operates treasury management, card services and international banking divisions that generate fee income.

**Specialty Lending and Product Niches** - We have focused an increasing amount of our lending activities in specialty markets where we believe our expertise and experience as a sophisticated commercial lender provides advantages over other competitors. In addition, we have developed expertise in certain product niches. These specialty niche activities focus on the following areas:

**Enterprise Value Lending/Senior Debt Financing.** We support mid-market company mergers and acquisitions primarily for Midwest-based manufacturing companies. We market directly to targeted private equity firms and provide a combination of senior debt and mezzanine debt financing.

**Life Insurance Premium Finance.** We specialize in financing high-end whole life insurance premiums utilized in high net worth estate planning.

**Tax Credit Related Lending.** We are a secured lender on affordable housing projects funded through the use of Federal and Missouri State Low Income housing tax credits. The Company also brokers State Low Income credits from its inventory to its clients. In addition, we provide leveraged and other loans on projects funded through the Department of the Treasury CDFI New Markets Tax Credit program. In 2011, 2013, and 2014, we were selected as one of the relatively few banks for New Markets Tax Credits. In this capacity, we were responsible for allocating a total of \$118 million of tax credits to clients and projects.

**Tax Credit Brokerage.** We acquire Missouri state tax credits from affordable housing development funds and sells the tax credits to clients and other individuals for tax planning purposes.

**Enterprise Advisory Services.** We have developed a proprietary deposit platform allowing registered investment advisory firms to offer FDIC insured cash deposits in addition to other investment products.

**Capitalizing on technology** - We view our technological capabilities to be a competitive advantage. Our systems provide Internet banking, expanded treasury management products, check and document imaging and remote deposit capture systems. Other services currently offered by the Bank include controlled disbursements, repurchase agreements and sweep investment accounts. Our treasury management suite of products blends advanced technology

and personal service, which we feel often creates a competitive advantage over larger, nationwide banks. Technology is also

2

---

extensively utilized in internal systems, operational support functions to improve customer service, and management reporting and analysis.

**Maintaining asset quality** - The Company monitors asset quality through formal ongoing, multiple-level reviews of loans in each market. These reviews are overseen by the Company's credit administration department. In addition, the Bank's loan portfolio is subject to ongoing monitoring by a loan review function that reports directly to the credit committee of our Bank's board of directors.

**Expense management** - The Company manages expenses carefully through detailed budgeting and expense approval processes. We measure the "efficiency ratio" as a benchmark for improvement. The efficiency ratio is equal to noninterest expense divided by total revenue (net interest income plus noninterest income). Continued improvement is targeted to increase earnings per share and generate higher returns on equity.

#### Acquisitions and Divestitures

Since December 2009, the Bank has entered into four agreements with the Federal Deposit Insurance Corporation ("FDIC") to acquire certain assets and assume certain liabilities of four failed banks: Valley Capital Bank, Home National Bank, Legacy Bank and The First National Bank of Olathe. In conjunction with each of these, the Bank entered into loss share agreements, under which the FDIC has agreed to reimburse the Bank for a percentage of losses on certain loans and other real estate acquired ("Covered Assets") for the term of the agreement. The reimbursable losses from the FDIC are based on the book value of the acquired loans and foreclosed assets as determined by the FDIC as of the date of each acquisition.

On May 16, 2013, the Company finalized its acquisition of certain assets of Gorman & Gorman Home Loans. In addition, Mark Gorman, founder and president of Gorman & Gorman, and the firm's mortgage production and operations staff joined the Company. The Gorman & Gorman and legacy Enterprise mortgage operations were combined into a division of the Bank named Enterprise Home Loans. The Company anticipates that the acquisition will strengthen its mortgage business.

On December 6, 2013, the Bank completed the sale and closure of four of its branches in the Kansas City market. The sale agreement called for two branches to be sold to another financial institution as well as \$7.6 million of loans, \$78.4 million of deposits, and \$1.5 million of other assets. The sale resulted in a pre-tax gain of approximately \$1.0 million primarily due to a premium received on the deposits sold as part of the transaction.

#### Debt Repayments

During 2014, the Company completed two transactions that significantly reduced its long term debt. On March 14, 2014, the Company converted \$5.0 million, 9% coupon, trust preferred securities to shares of common stock. As a result of the transaction, the Company reduced its long-term debt by \$5.0 million and issued an aggregate of approximately 0.3 million shares of common stock. On December 23, 2014, the Company prepaid \$50.0 million of debt with the Federal Home Loan Bank ("FHLB") with a weighted average interest rate of 3.17% and a maturity of 3 years and incurred a prepayment penalty of \$2.9 million before taxes. These transactions are expected to further reduce our cost of interest bearing liabilities in future periods as we continue to manage interest rate risk.

During 2013, the Company completed two transactions similar to the 2014 events to reduce long term debt and improve our overall cost of funding. On August 15, 2013, the Company converted \$20.0 million, 9% coupon, trust preferred securities to shares of common stock. As a result of the transaction, the Company reduced its long-term debt by \$20.0 million and issued an aggregate of 1.2 million shares of common stock. The Company issued 25,060 shares of additional common stock as an inducement for the conversion. On December 30, 2013, the Company prepaid \$30.0 million of debt with the Federal Home Loan Bank ("FHLB") with a weighted average interest rate of 4.09% and a maturity of 3 years and incurred a prepayment penalty of \$2.6 million before taxes.



Market Areas and Approach to Geographic Expansion

We operate in the St. Louis, Kansas City and Phoenix metropolitan areas. The Company, as part of its expansion effort, plans to continue its strategy of operating branches with larger average deposits, and employing experienced staff who are compensated on the basis of performance and customer service.

3

---

St. Louis - We have six banking facilities in the St. Louis metropolitan area. The St. Louis market enjoys a stable, diverse economic base and is ranked the 19<sup>th</sup> largest metropolitan statistical area in the United States. It is an attractive market for us with nearly 70,000 privately held businesses and more than 50,000 households with investable assets of \$1.0 million or more.

Kansas City - We have eight banking facilities in the Kansas City market. Kansas City is also an attractive private company market with over 50,000 privately held businesses and more than 40,000 households with investable assets of \$1.0 million or more. It is the 30<sup>th</sup> largest metropolitan area in the U.S.

Phoenix - Since December 2009, we have completed four FDIC-assisted transactions in the Phoenix market. We have two banking facilities in the Phoenix metropolitan area.

We believe the Phoenix market offers long-term growth opportunities for the Company. The underlying demographic and geographic factors that propelled Phoenix into one of the fastest growing and most dynamic markets in the country should drive continued growth in that market. Phoenix is the nation's 12<sup>th</sup> largest metropolitan area, and has more than 90,000 privately held businesses and more than 80,000 households with investable assets over \$1.0 million.

#### Competition

The Company and its subsidiaries operate in highly competitive markets. Our geographic markets are served by a number of large multi-bank holding companies with substantial capital resources and lending capacity. Many of the larger banks have established specialized units, which target private businesses and high net worth individuals. Also, the St. Louis, Kansas City and Phoenix markets have numerous small community banks. In addition to other financial holding companies and commercial banks, we compete with credit unions, thrifts, investment managers, brokerage firms, and other providers of financial services and products.

#### Supervision and Regulation

The following is a summary description of the relevant laws, rules, and regulations governing banks and financial holding companies. The description of, and references to, the statutes and regulations below are brief summaries and do not purport to be complete. The descriptions are qualified in their entirety by reference to the specific statutes and regulations discussed.

The regulatory and supervisory structure establishes a comprehensive framework of activities in which an institution can engage and is intended primarily for the protection of depositors, the deposit insurance funds and the banking system as a whole, rather than for the protection of shareholders or creditors. The regulatory structure also gives the regulatory authorities extensive discretion in connection with their supervisory and enforcement activities and examination policies, including policies concerning the establishment of deposit insurance assessment fees, classification of assets and establishment of adequate loan loss reserves for regulatory purposes.

Various legislation is from time to time introduced in Congress and Missouri's legislature. Such legislation may change applicable statutes and the operating environment in substantial and unpredictable ways. We cannot determine the ultimate effect that future legislation or implementing regulations would have upon our financial condition or upon our results of operations or the results of operations of any of our subsidiaries.

On July 21, 2010, the President signed into law the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 ("Dodd-Frank Act"), which contains a comprehensive set of provisions designed to govern the practices and oversight of financial institutions and other participants in the financial markets. The Dodd-Frank Act made extensive changes in the regulation of financial institutions and their holding companies.

Uncertainty remains as to the ultimate impact of the Dodd-Frank Act, which could have a material adverse impact on the financial services industry as a whole or on our and the Bank's business, results of operations, and financial condition. Many aspects of the Dodd-Frank Act are subject to rulemaking and will take effect over several years, making it difficult to anticipate the overall financial impact on the Company, its customers or the financial industry more generally.

4

---

However, it is likely that the Dodd-Frank Act will increase the regulatory burden, compliance costs and interest expense for the Company and Bank.

#### Financial Holding Company

The Company is a financial holding company registered under the Bank Holding Company Act of 1956, as amended (“BHCA”). As a financial holding company, the Company is subject to regulation and examination by the Federal Reserve, and is required to file periodic reports of its operations and such additional information as the Federal Reserve may require. In order to remain a financial holding company, the Company must continue to be considered well managed and well capitalized by the Federal Reserve, and the Bank must continue to be considered well managed and well capitalized by the FDIC and have at least a “satisfactory” rating under the Community Reinvestment Act. See “Liquidity and Capital Resources” in the Management Discussion and Analysis for more information on our capital adequacy and “Bank Subsidiary - Community Reinvestment Act” below for more information on the Community Reinvestment Act.

**Acquisitions:** With certain limited exceptions, the BHCA requires every financial holding company or bank holding company to obtain the prior approval of the Federal Reserve before (i) acquiring substantially all the assets of any bank, (ii) acquiring direct or indirect ownership or control of any voting shares of any bank if, after such acquisition, it would own or control more than 5% of the voting shares of such bank (unless it already owns or controls the majority of such shares), or (iii) merging or consolidating with another bank holding company. Additionally, the BHCA provides that the Federal Reserve may not approve any of these transactions if it would result in or tend to create a monopoly, substantially lessen competition, or otherwise function as a restraint of trade, unless the anti-competitive effects of the proposed transaction are clearly outweighed by the public interest in meeting the convenience and needs of the community to be served. The Federal Reserve is also required to consider the financial and managerial resources and future prospects of the bank holding companies and banks concerned and the convenience and needs of the community to be served. The Federal Reserve’s consideration of financial resources generally focuses on capital adequacy, which is discussed below.

**Change in Bank Control:** Subject to various exceptions, the BHCA and the Change in Bank Control Act, together with related regulations, require Federal Reserve approval prior to any person or company acquiring “control” of a bank or financial holding company. Control is conclusively presumed to exist if an individual or company acquires 25% or more of any class of voting securities of the Company. Control is rebuttably presumed to exist if a person or company acquires 10% or more, but less than 25%, of any class of voting securities of the Company. The regulations provide a procedure for challenging rebuttable presumptions of control.

**Permitted Activities:** The BHCA has generally prohibited a bank holding company from engaging in activities other than banking or managing or controlling banks or other permissible subsidiaries and from acquiring or retaining direct or indirect control of any company engaged in any activities other than those determined by the Federal Reserve to be closely related to banking or managing or controlling banks as to be a proper incident thereto. Provisions of the Gramm-Leach-Bliley Act have expanded the permissible activities of a bank holding company that qualifies as a financial holding company. Under the regulations implementing the Gramm-Leach-Bliley Act, a financial holding company may engage in additional activities that are financial in nature or incidental or complementary to financial activities. Those activities include, among other activities, certain insurance, advisory and securities activities.

**Support of Bank Subsidiaries:** Under Federal Reserve policy, the Company is expected to act as a source of financial strength for the Bank and to commit resources to support the Bank. In addition, pursuant to the Dodd-Frank Act, this longstanding policy has been given the force of law and additional regulations promulgated by the Federal Reserve to further implement the intent of the statute are possible. As in the past, such financial support from the Company may be required at times when, without this legal requirement, the Company may not be inclined to provide it.

Capital Adequacy: The Company is also subject to capital requirements applied on a consolidated basis, which are substantially similar to those required of the Bank (summarized below).

Dividend Restrictions: Under Federal Reserve policies, financial holding companies may pay cash dividends on common stock only out of income available over the past year if prospective earnings retention is consistent with the

5

---

organization's expected future needs and financial condition and if the organization is not in danger of not meeting its minimum regulatory capital requirements. Federal Reserve policy also provides that financial holding companies should not maintain a level of cash dividends that undermines the financial holding company's ability to serve as a source of strength to its banking subsidiaries.

#### Bank Subsidiary

At December 31, 2014, Enterprise Bank & Trust was our only bank subsidiary. The Bank is a Missouri trust company with banking powers and is subject to supervision and regulation by the Missouri Division of Finance. In addition, as a Federal Reserve non-member bank, it is subject to supervision and regulation by the FDIC. The Bank is a member of the FHLB of Des Moines.

The Bank is subject to extensive federal and state regulatory oversight. The various regulatory authorities regulate or monitor all areas of the banking operations, including security devices and procedures, adequacy of capitalization and loss reserves, loans, investments, borrowings, deposits, mergers, issuance of securities, payment of dividends, interest rates payable on deposits, interest rates or fees chargeable on loans, establishment of branches, corporate reorganizations, maintenance of books and records, and adequacy of staff training to carry on safe lending and deposit gathering practices. The Bank must maintain certain capital ratios and is subject to limitations on aggregate investments in real estate, bank premises, low income housing projects, and furniture and fixtures. In connection with their supervision and regulation responsibilities, the Bank is subject to periodic examination by the FDIC and Missouri Division of Finance.

**Capital Adequacy:** The Bank is required to comply with the FDIC's capital adequacy standards for insured banks. The FDIC has issued risk-based capital and leverage capital guidelines for measuring capital adequacy, and all applicable capital standards must be satisfied for the Bank to be considered in compliance with regulatory capital requirements.

On July 2, 2013, the Federal Reserve approved a final rule to establish a new comprehensive regulatory capital framework for all U.S. banking organizations. On July 9, 2013, the final rule was approved (as an interim final rule) by the FDIC. This regulatory capital framework, commonly referred to as Basel III, implements several changes to the U.S. regulatory capital framework required by the Dodd-Frank Act. The new U.S. capital framework imposes higher minimum capital requirements, additional capital buffers above those minimum requirements, a more restrictive definition of capital and higher risk weights for various enumerated classifications of assets, the combined impact of which effectively results in substantially more demanding capital standards for U.S. banking organizations.

The Basel III final rule establishes a new common equity Tier 1 capital ("CET1") requirement, an increase in the Tier 1 capital requirement from 4.0% to 6.0% and maintains the current 8.0 % total capital requirement. The new CET1 and minimum Tier 1 capital requirements are effective January 1, 2015. In addition to these minimum risk-based capital ratios, the Basel III final rule requires that all banking organizations maintain a "capital conservation buffer" consisting of CET1 capital in an amount equal to 2.5% of risk-weighted assets in order to avoid restrictions on their ability to make capital distributions and to pay certain discretionary bonus payments to executive officers. In order to avoid those restrictions, the capital conservation buffer, when fully implemented, will effectively increase the minimum CET1 capital, Tier 1 capital, and total capital ratios for U.S. banking organizations to 7.0 %, 8.5%, and 10.5%, respectively. Banking organizations with capital levels that fall within the buffer will be required to limit dividends, share repurchases or redemptions (unless replaced within the same calendar quarter by capital instruments of equal or higher quality), and discretionary bonus payments. The capital conservation buffer is phased in over a 5-year period beginning January 1, 2016.

As required by Dodd-Frank, the Basel III final rule requires that capital instruments such as trust preferred securities and cumulative preferred shares be phased-out of Tier 1 capital by January 1, 2016, for banking organizations that had \$15 billion or more in total consolidated assets as of December 31, 2009 and grandfathered as Tier 1 capital such

instruments issued by these smaller entities prior to May 19, 2010 (provided they do not exceed 25 percent of Tier 1 capital). The Company's trust preferred securities are grandfathered under this provision.

The Basel III final rule provided banking organizations under \$250 billion in total consolidated assets or under \$10 billion in foreign exposures with a one-time "opt-out" right to continue excluding Accumulated Other Comprehensive Income ("AOCI") from CET1 and Tier 1 capital. The Company will make this election, which is irrevocable, on the Bank's Call Report for the period ended March 31, 2015 and is effective January 1, 2015.

The Basel III final rule requires that goodwill and other intangible assets (other than mortgage servicing assets), net of associated deferred tax liabilities ("DTLs"), be deducted from CET1 capital. Additionally, deferred tax assets ("DTAs") that arise from net operating loss and tax credit carryforwards, net of associated DTLs and valuation allowances, are fully deducted from CET1 capital. However, DTAs arising from temporary differences that could not be realized through net operating loss carrybacks, along with mortgage servicing assets and "significant" (defined as greater than 10% of the issued and outstanding common stock of the unconsolidated financial institution) investments in the common stock of unconsolidated "financial institutions" are partially includible in CET1 capital, subject to deductions defined in the final rule.

Based on an assessment of the impact of Basel III and in consideration of the capital plan for the Company, management of the Company anticipates that the Company and Bank will be in compliance with the Basel III guidelines within the implementation periods.

**Prompt Corrective Action:** The Bank's capital categories are determined for the purpose of applying the "prompt corrective action" rules described below and may be taken into consideration by banking regulators in evaluating proposals for expansion or new activities. They are not necessarily an accurate representation of a bank's overall financial condition or prospects for other purposes. A failure to meet the capital guidelines could subject the Bank to a variety of enforcement actions under those rules, including the issuance of a capital directive, the termination of deposit insurance by the FDIC, a prohibition on the taking of brokered deposits, and other restrictions on its business. As described below, the FDIC also can impose other substantial restrictions on banks that fail to meet applicable capital requirements.

Federal law establishes a system of prompt corrective action to resolve the problems of undercapitalized banks. Under this system, the FDIC has established five capital categories ("well capitalized," "adequately capitalized," "undercapitalized," "significantly undercapitalized," and "critically undercapitalized") and is required to take various mandatory supervisory actions, and is authorized to take other discretionary actions with respect to banks in the three undercapitalized categories. The severity of any such actions taken will depend upon the capital category in which a bank is placed. Generally, subject to a narrow exception, current federal law requires the FDIC to appoint a receiver or conservator for a bank that is critically undercapitalized.

Under the FDIC's prompt corrective action rules, beginning on January 1, 2015, a bank that (1) has a total capital to risk-weighted assets ratio (the "Total Capital Ratio") of 10.0% or greater, a CET1 Capital to risk-weighted assets ratio (the "CET1 Capital Ratio") of 6.5% or greater, a Tier 1 Capital to risk-weighted assets ratio (the "Tier 1 Capital Ratio") of 8.0% or greater, and a Tier 1 Capital to average assets (the "Leverage Ratio") of 5.0% or greater, and (2) is not subject to any written agreement, order, capital directive, or prompt corrective action directive issued by the FDIC, is considered to be "well capitalized." A bank with a Total Capital Ratio of 8.0% or greater, a Tier 1 Capital Ratio of 6.0% or greater, a CET1 Capital Ratio of 4.5% or greater, and a Leverage Ratio of 4.0% or greater, is considered to be "adequately capitalized." A bank that has a Total Capital Ratio of less than 8.0%, a Tier 1 Capital Ratio of less than 6.0%, a CET1 Capital Ratio of less than 4.5%, or a Leverage Ratio of less than 4.0%, is considered to be "undercapitalized." A bank that has a Total Capital Ratio of less than 6.0%, a Tier 1 Capital Ratio of less than 3.0%, or a Leverage Ratio of less than 4.0%, a CET1 Capital Ratio of less than 3.0% is considered to be "significantly undercapitalized," and a bank that has a tangible equity capital to total assets ratio equal to or less than 2.0% is deemed to be "critically undercapitalized." A bank may be considered to be in a capitalization category lower than indicated by its actual capital position if it receives an unsatisfactory examination rating or is subject to a regulatory action that



requires heightened levels of capital.

Prior to January 1, 2015, a Bank was considered to be "well capitalized" if the Bank (1) had Total Capital Ratio of 10.0% or greater, a Tier 1 Capital Ratio of 6.0% or greater, and a Leverage Ratio of 5.0% or greater, and (2) was not subject to any written agreement, order, capital directive, or prompt corrective action directive issued by the FDIC.

7

---

Prior to January 1, 2015, a bank with a Total Capital Ratio of 8.0% or greater, a Tier 1 Capital Ratio of 4.0% or greater, and a Leverage Ratio of 4.0% or greater, was considered to be "adequately capitalized"; a bank that had a Total Capital Ratio of less than 8.0% a Tier 1 Capital Ratio of less than 4.0%, or a Leverage Ratio of less than 4.0%, was considered to be "undercapitalized"; a bank that had a Total Capital Ratio of less than 6.0%, a Tier 1 Capital Ratio of less than 3.0%, or a Leverage Ratio of less than 3.0%, was considered to be "significantly undercapitalized"; and a bank that had a tangible equity capital to assets ratio equal to or less than 2.0% was deemed to be "critically undercapitalized."

A bank that becomes "undercapitalized," "significantly undercapitalized," or "critically undercapitalized" is required to submit an acceptable capital restoration plan to the FDIC. An "undercapitalized" bank also is generally prohibited from increasing its average total assets, making acquisitions, establishing new branches, or engaging in any new line of business, except in accordance with an accepted capital restoration plan or with the approval of the FDIC. Also, the FDIC may treat an "undercapitalized" bank as being "significantly undercapitalized" if it determines that those actions are necessary to carry out the purpose of the law.

At December 31, 2014, all of the Bank's capital ratios were at levels that would qualify it to be "well capitalized" for regulatory purposes.

**Consumer Financial Protection Bureau:** The Dodd-Frank Act centralized responsibility for consumer financial protection including implementing, examining and enforcing compliance with federal consumer financial laws with Consumer Financial Protection Bureau (the "CFPB"). Depository institutions with less than \$10 billion in assets, such as our Bank, will be subject to rules promulgated by the CFPB but will continue to be examined and supervised by federal banking regulators for consumer compliance purposes.

The Bank is also subject to other laws and regulations intended to protect consumers in transactions with depository institutions, as well as other laws or regulations affecting customers of financial institutions generally. While the list set forth herein is not exhaustive, these laws and regulations include the Truth in Lending Act, the Truth in Savings Act, the Electronic Funds Transfer Act, the Expedited Funds Availability Act, the Equal Credit Opportunity Act, the Fair Housing Act, the Real Estate Settlement and Procedures Act, the Fair Credit Reporting Act and the Federal Trade Commission Act, among others. These laws and regulations mandate certain disclosure requirements and regulate the manner in which financial institutions must deal with customers when taking deposits or making loans to such customers. The Bank must comply with the applicable provisions of these consumer protection laws and regulations as part of its ongoing customer relations.

**UDAP and UDAAP:** Recently, banking regulatory agencies have increasingly used a general consumer protection statute to address "unethical" or otherwise "bad" business practices that may not necessarily fall directly under the purview of a specific banking or consumer finance law. The law of choice for enforcement against such business practices has been Section 5 of the Federal Trade Commission Act-the primary federal law that prohibits unfair or deceptive acts or practices and unfair methods of competition in or affecting commerce ("UDAP" or "FTC Act"). "Unjustified consumer injury" is the principal focus of the FTC Act. Prior to the Dodd-Frank Act, there was little formal guidance to provide insight to the parameters for compliance with the UDAP law. However, the UDAP provisions have been expanded under the Dodd-Frank Act to apply to "unfair, deceptive or abusive acts or practices" ("UDAAP"), which has been delegated to the CFPB for supervision. The CFPB has published its first Supervision and Examination Manual that addresses compliance with and the examination of UDAAP.

**Mortgage Reform:** The CFPB has adopted final rules implementing minimum standards for the origination of residential mortgages, including standards regarding a customer's ability to repay, restricting variable rate lending by requiring the ability to repay variable-rate loans be determined by using the maximum rate that will apply during the first five years of a variable-rate loan term, and making more loans subject to provisions for higher cost loans, new disclosures, and certain other revisions. In addition, the Dodd-Frank Act allows borrowers to raise certain defenses to foreclosure if they receive any loan other than a "qualified mortgage" as defined by the CFPB.

**Dividends by the Bank Subsidiary:** Under Missouri law, the Bank may pay dividends to the Company only from a portion of its undivided profits and may not pay dividends if its capital is impaired. As an insured depository institution, federal law prohibits the Bank from making any capital distributions, including the payment of a cash dividend if it is



“undercapitalized” or after making the distribution would become undercapitalized. If the FDIC believes that the Bank is engaged in, or about to engage in, an unsafe or unsound practice, the FDIC may require, after notice and hearing, that the bank cease and desist from that practice. The FDIC has indicated that paying dividends that deplete a depository institution’s capital base to an inadequate level would be an unsafe and unsound banking practice. The FDIC has issued policy statements that provide that insured banks generally should pay dividends only from their current operating earnings. The Bank’s payment of dividends also could be affected or limited by other factors, such as events or circumstances which lead the FDIC to require that it maintain capital in excess of regulatory guidelines.

**Transactions with Affiliates and Insiders:** The Bank is subject to the provisions of Regulation W promulgated by the Federal Reserve, which encompasses Sections 23A and 23B of the Federal Reserve Act. Regulation W places limits and conditions on the amount of loans or extensions of credit to, investments in, or certain other transactions with, affiliates and on the amount of advances to third parties collateralized by the securities or obligations of affiliates. Regulation W also prohibits, among other things, an institution from engaging in certain transactions with certain affiliates unless the transactions are on terms substantially the same, or at least as favorable to such institution or its subsidiaries, as those prevailing at the time for comparable transactions with nonaffiliated companies. Federal law also places restrictions on the Bank’s ability to extend credit to its executive officers, directors, principal shareholders and their related interests. These extensions of credit must be made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with unrelated third parties; and must not involve more than the normal risk of repayment or present other unfavorable features.

**Community Reinvestment Act:** The Community Reinvestment Act (“CRA”) requires that, in connection with examinations of financial institutions within its jurisdiction, the FDIC shall evaluate the record of the financial institutions in meeting the credit needs of their local communities, including low and moderate income neighborhoods, consistent with the safe and sound operation of those institutions. These factors are also considered in evaluating mergers, acquisitions, and applications to open a branch or facility. The Bank has a satisfactory rating under CRA.

**USA Patriot Act:** The Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 (the "USA PATRIOT Act") requires each financial institution to: (i) establish an anti-money laundering program; (ii) establish due diligence policies, procedures and controls with respect to its private banking accounts and correspondent banking accounts involving foreign individuals and certain foreign banks; and (iii) implement certain due diligence policies, procedures and controls with regard to correspondent accounts in the United States for, or on behalf of, a foreign bank that does not have a physical presence in any country. In addition, the USA PATRIOT Act contains a provision encouraging cooperation among financial institutions, regulatory authorities and law enforcement authorities with respect to individuals, entities and organizations engaged in, or reasonably suspected of engaging in, terrorist acts or money laundering activities.

**Commercial Real Estate Lending:** The Bank’s lending operations may be subject to enhanced scrutiny by federal banking regulators based on its concentration of commercial real estate loans. On December 6, 2006, the federal banking regulators issued final guidance to remind financial institutions of the risk posed by commercial real estate (“CRE”) lending concentrations. CRE loans generally include land development, construction loans, and loans secured by multifamily property, and non-farm, nonresidential real property where the primary source of repayment is derived from rental income associated with the property. The guidance prescribes the following guidelines for its examiners to help identify institutions that are potentially exposed to significant CRE risk, including concentrations in certain types of CRE that may warrant greater supervisory scrutiny: total reported loans for construction, land development, and other land represent 100% or more of the institutions total capital; or total commercial real estate loans represent 300% or more of the institution’s total capital, and the outstanding balance of the institution’s commercial real estate loan portfolio has increased by 50% or more.

Volcker Rule: On December 10, 2013, the federal regulators adopted final regulations to implement the proprietary trading and private fund prohibitions of the Volcker Rule under the Dodd-Frank Act. Under the final regulations, which were to become effective on April 1, 2014, banking entities are generally prohibited, subject to significant exceptions from: (i) short-term proprietary trading as principal in securities and other financial instruments, and (ii) sponsoring or acquiring or retaining an ownership interest in private equity and hedge funds. The Federal Reserve has granted an extension for compliance with the Volcker Rule until July 21, 2015. In addition, the Federal Reserve

has granted an extension to conform with the retention of ownership interest in private equity and hedge funds until July 21, 2016 and has indicated that they will grant an additional one year extension to July 21, 2017. The Company plans to comply within the conformance period and does not believe that the Volcker Rule will have a material impact on its investment portfolio.

#### Employees

At December 31, 2014, we had 452 full-time equivalent employees. None of the Company's employees are covered by a collective bargaining agreement. Management believes that its relationship with its employees is good.

#### ITEM 1A: RISK FACTORS

An investment in our common shares is subject to risks inherent to our business. Before making an investment decision, you should carefully consider the risks and uncertainties described below together with all of the other information included or incorporated by reference in this report. The value of our common shares could decline due to any of these risks, and you could lose all or part of your investment.

#### Risks Relating to Our Business

Our allowance for loan losses may not be adequate to cover actual loan losses.

We maintain an allowance for loan losses, which is a reserve established through a provision for loan losses charged to expense, that represents management's estimate of probable losses within the existing portfolio of loans. The allowance, in the judgment of management, is sufficient to reserve for estimated loan losses and risks inherent in the loan portfolio. We continue to monitor the adequacy of our loan loss allowance and may need to increase it if economic conditions deteriorate. In addition, bank regulatory agencies periodically review our allowance for loan losses and may require an increase in the provision for loan losses or the recognition of further loan charge-offs, based on judgments that can differ somewhat from those of our own management. In addition, if charge-offs in future periods exceed the allowance for loan losses (i.e., if the loan allowance is inadequate), we may need additional loan loss provisions to increase the allowance for loan losses. Additional provisions to increase the allowance for loan losses, should they become necessary, would result in a decrease in net income and a reduction in capital, and may have a material adverse effect on our financial condition and results of operations.

An economic downturn, especially one affecting our market areas, could adversely affect our financial condition, results of operations or cash flows.

Our success depends upon the economic prosperity in our primary market areas. If the communities in which we operate do not grow, or if prevailing economic conditions locally or nationally are unfavorable, our business may not succeed. Unpredictable economic conditions may have an adverse effect on the quality of our loan portfolio and our financial performance. Economic recession over a prolonged period or other economic problems in our market areas could have a material adverse impact on the quality of the loan portfolio and the demand for our products and services. Future adverse changes in the economies in our market areas may have a material adverse effect on our financial condition, results of operations or cash flows. As a community bank, we bear increased risk of unfavorable local economic conditions. Moreover, we cannot give any assurance that we will benefit from any market growth or favorable economic conditions in our primary market areas even if they do occur.

Our loan portfolio is concentrated in certain markets which could result in increased credit risk.

A majority of our loans are to businesses and individuals in the St. Louis, Kansas City, and Phoenix metropolitan areas. The regional economic conditions in areas where we conduct our business have an impact on the demand for our products and services as well as the ability of our customers to repay loans, the value of the collateral securing loans, and the stability of our deposit funding sources. Consequently, a decline in local economic conditions may adversely affect our earnings.

Our loan portfolio mix, which has a concentration of loans secured by real estate, could result in increased credit risk. A significant portion of our portfolio is secured by real estate and thus we face a high degree of risk from a downturn in our real estate markets. If real estate values would decline further in our markets, the value of real estate collateral securing our loans could be significantly reduced. Our ability to recover on defaulted loans for which the primary

10

---

reliance for repayment is on the real estate collateral by foreclosing and selling that real estate would then be diminished, and we would be more likely to suffer losses on defaulted loans.

Additionally, Kansas and Arizona have foreclosure laws that hinder our ability to recover on defaulted loans secured by property in their states. Kansas is a judicial foreclosure state, therefore all foreclosures must be processed through the Kansas state courts. Due to this process, it takes approximately one year for us to foreclose on real estate collateral located in the State of Kansas. Our ability to recover on defaulted loans secured by Kansas property may be delayed and our recovery efforts are lengthened due to this process. Arizona has a non-deficiency statute with regards to certain types of residential mortgage loans. Our ability to recover on defaulted loans secured by residential mortgages may be limited to the fair value of the real estate securing the loan at the time of foreclosure.

We face potential risks from litigation brought against the Company or the Bank.

We are involved in various lawsuits and legal proceedings. Pending or threatened litigation against the Company or the Bank, litigation-related costs and any legal liability as a result of an adverse determination with respect to one or more of these legal proceedings could have a material adverse effect on our business, cash flows, financial position or results of operations and/or could cause us significant reputational harm, including without limitation as a result of negative publicity the Company may face even if it prevails in such legal proceedings, which could adversely affect our business prospects.

Liquidity risk could impair our ability to fund operations and jeopardize our financial condition.

Liquidity is essential to our business. An inability to raise funds through deposits, borrowings, the sale of investment securities and other sources could have a substantial material adverse effect on our liquidity. Our access to funding sources in amounts that are adequate to finance our activities could be impaired by factors that affect us specifically or the financial services industry in general. Factors that could detrimentally impact our access to liquidity sources include but are not limited to a decrease in the level of our business activity due to a market downturn, our failure to remain well capitalized, or adverse regulatory action against us. Our ability to acquire deposits or borrow could also be impaired by factors that are not specific to us, such as a severe disruption of the financial markets or negative views and expectations about the prospects for the financial services industry as a whole.

Our business is subject to interest rate risk and variations in interest rates may negatively affect our financial performance.

A substantial portion of our income is derived from the differential or “spread” between the interest earned on loans, investment securities and other interest-earning assets, and the interest paid on deposits, borrowings and other interest-bearing liabilities. Because of the differences in the maturities and repricing characteristics of our interest-earning assets and interest-bearing liabilities, changes in interest rates do not produce equivalent changes in interest income earned on interest-earning assets and interest paid on interest-bearing liabilities. Significant fluctuations in market interest rates could materially and adversely affect not only our net interest spread, but also our asset quality and loan origination volume, and/or net income.

We face potential risk from changes in Governmental Monetary Policies.

The Bank’s earnings are affected by domestic economic conditions and the monetary and fiscal policies of the United States government and its agencies. The Federal Reserve’s monetary policies have had, and are likely to continue to have, an important impact on the operating results of commercial banks through its power to implement national monetary policy in order, among other things, to curb inflation or combat a recession. The monetary policies of the Federal Reserve affect the levels of bank loans, investments, and deposits through its control over the issuance of United States government securities, its regulation of the discount rate applicable to member banks, and its influence over reserve requirements to which member banks are subject. The Bank cannot predict the nature or impact of future changes in monetary and fiscal policies.





If the Bank incurs losses that erode its capital, it may become subject to enhanced regulation or supervisory action. Under federal and state laws and regulations pertaining to the safety and soundness of insured depository institutions, the Missouri Division of Finance, the Federal Reserve, and the FDIC have the authority to compel or restrict certain actions if the Company's or the Bank's capital should fall below adequate capital standards as a result of future operating losses, or if its bank regulators determine that it has insufficient capital. Among other matters, the corrective actions include but are not limited to requiring affirmative action to correct any conditions resulting from any violation or practice; directing an increase in capital and the maintenance of specific minimum capital ratios; restricting the Bank's operations; limiting the rate of interest the bank may pay on brokered deposits; restricting the amount of distributions and dividends and payment of interest on its trust preferred securities; requiring the Bank to enter into informal or formal enforcement orders, including memoranda of understanding, written agreements and consent or cease and desist orders to take corrective action and enjoin unsafe and unsound practices; removing officers and directors and assessing civil monetary penalties; and taking possession of and closing and liquidating the Bank. These actions may limit the ability of the Bank or Company to execute its business plan and thus can lead to an adverse impact on the results of operations or financial position.

Changes in government regulation and supervision may increase our costs.

Our operations are subject to extensive regulation by federal, state and local governmental authorities and are subject to various laws and judicial and administrative decisions imposing requirements and restrictions on part or all of our operations. Banking regulations are primarily intended to protect depositors' funds, federal deposit insurance funds and the banking system as a whole, not stockholders. Because our business is highly regulated, the laws, rules, regulations and supervisory guidance and policies applicable to us are subject to regular modification and change and could result in an adverse impact on our results of operations.

Any future increases in FDIC insurance premiums might adversely impact our earnings.

Over the past several years, the FDIC has adopted several rules which have resulted in a number of changes to the FDIC assessments, including modification of the assessment system and a special assessment. It is possible that the FDIC may impose additional special assessments in the future or further increase our annual assessment, which could adversely affect our earnings.

We may be adversely affected by the soundness of other financial institutions.

Financial services institutions are interrelated as a result of trading, clearing, counterparty or other relationships. We have exposure to different institutions and counterparties, and we execute transactions with various counterparties in the financial industry, including federal home loan banks, commercial banks, brokers and dealers, investment banks and other institutional clients. Defaults by financial services institutions, and even rumors or questions about one or more financial services institutions or the financial services industry in general, have led to market-wide liquidity problems in prior years and could lead to losses or defaults by us or by other institutions. Any such losses could materially and adversely affect our results of operations or financial position.

We face significant competition.

The financial services industry, including commercial banking, mortgage banking, consumer lending, and home equity lending, is highly competitive, and we encounter strong competition for deposits, loans, and other financial services in all of our market areas in each of our lines of business. Our principal competitors include other commercial banks, savings banks, savings and loan associations, mutual funds, money market funds, finance companies, trust companies, insurers, credit unions, and mortgage companies among others. Many of our non-bank competitors are not subject to the same degree of regulation as us and have advantages over us in providing certain services. Many of our competitors are significantly larger than us and have greater access to capital and other resources. Also, our ability to compete effectively in our business is dependent on our ability to adapt successfully to regulatory and technological changes within the banking and financial services industry, generally. If we are unable to compete effectively, we will lose market share and our income from loans and other products may diminish.

Our ability to compete successfully depends on a number of factors, including, among other things:  
the ability to develop, maintain, and build upon long-term customer relationships based on top quality service and high ethical standards;  
the scope, relevance, and pricing of products and services offered to meet customer needs and demands;

12

---

the rate at which we introduce new products and services relative to our competitors;

- customer satisfaction with our level of service;  
and/or

industry and general economic trends.

Failure to perform in any of these areas could significantly weaken our competitive position, and could adversely affect our growth and profitability, which, in turn, could have a material adverse effect on our financial condition and results of operations.

We have engaged in and may continue to engage in further expansion through acquisitions, including FDIC-assisted transactions, which could negatively affect our business and earnings.

Our earnings, financial condition, and prospects after a merger or acquisition depend in part on our ability to successfully integrate the operations of the acquired company. We may be unable to integrate operations successfully or to achieve expected results or cost savings.

Acquiring other banks or businesses involves various risks commonly associated with acquisitions, including, among other things:

- potential exposure to unknown or contingent liabilities of the target company;
- exposure to potential asset quality issues of the target company;
- difficulty and expense of integrating the operations and personnel of the target company;
- potential disruption to our business;
- potential diversion of our management's time and attention;
- the possible loss of key employees and customers of the target company;
- difficulty in estimating the value of the target company; and/or
- potential changes in banking or tax laws or regulations that may affect the target company.

We periodically evaluate merger and acquisition opportunities and conduct due diligence activities related to possible transactions with other financial institutions and financial services companies. As a result, merger or acquisition discussions and, in some cases, negotiations may take place, and future mergers or acquisitions involving cash, debt or equity securities may occur at any time. Acquisitions may involve the payment of a premium over book and/or market values, and, therefore, some dilution of our tangible book value and net income per common share may occur in connection with any future transaction. Furthermore, failure to realize the expected revenue increases, cost savings, reimbursements of losses from the FDIC, increases in geographic or product presence, and/or other projected benefits from an acquisition could have a material adverse effect on our financial condition and results of operations. Finally, to the extent that we issue capital stock in connection with transactions, such transactions and related stock issuances may have a dilutive effect on earnings per share of our common stock and share ownership of our stockholders.

Our ability to continue to receive the benefits of our loss share arrangements with the FDIC is conditioned upon our compliance with certain requirements under the agreements.

We are the beneficiary of several loss share agreements with the FDIC that call for the FDIC to fund a portion of our losses on loss share assets we acquired in connection with our FDIC-assisted transactions. To recover a portion of our losses and retain the loss share protection, we must comply with certain requirements imposed by these agreements. The requirements of the agreements relate primarily to our administration of the assets covered by the agreements, as well as our obtaining the consent of the FDIC to engage in certain corporate transactions that may be deemed under the agreements to constitute a transfer of the loss share benefits. When the consent of the FDIC is required under the loss share agreements, the FDIC may withhold its consent or may condition its consent on terms that we do not find acceptable. If the FDIC does not grant its consent to a transaction we would like to pursue, or conditions its consent on terms that we do not find acceptable, we may be unable to engage in a corporate transaction that might otherwise

benefit our shareholders or we may elect to pursue such a transaction without obtaining the FDIC's consent, which could result in termination of our loss share agreements with the FDIC.

Our loss sharing arrangements with the FDIC will not cover all of our losses on loans we acquired. Although we have entered into loss share agreements with the FDIC that provide the FDIC will bear a significant portion of losses related to specified loan portfolios that we acquired, we are not protected for all losses resulting from

charge-offs with respect to those specified loan portfolios. Additionally, the loss sharing agreements have limited terms. Therefore, the FDIC will not reimburse us for any charge-off or related losses that we experience after the term of a loss share agreement, and any such charge-offs could negatively impact our net income. Moreover, the loss share provisions in the loss share agreements may be administered improperly, or the FDIC may interpret those provisions in a way different than we do. In any of those events, our losses could increase.

We may not be able to attract and retain skilled people.

Our success depends, in large part, on our ability to attract and retain key people. Competition for the best people in most activities in which we are engaged can be intense, and we may not be able to hire or retain the people we want and/or need. Although we maintain employment agreements with certain key employees, and have incentive compensation plans aimed, in part, at long-term employee retention, the unexpected loss of services of one or more of our key personnel could still occur, and such events may have a material adverse impact on our business because of the loss of the employee's skills, knowledge of our market, and years of industry experience and the difficulty of promptly finding qualified replacement personnel.

We may need to raise additional capital in the future, and such capital may not be available to us or may only be available on unfavorable terms.

We may need to raise additional capital in the future in order to support any additional provisions for loan losses and loan charge-offs, to maintain our capital ratios, or for other reasons. The condition of the financial markets may be such that we may not be able to obtain additional capital, or the additional capital may only be available on terms that are not attractive to us.

The CFPB may reshape the consumer financial laws through rulemaking and enforcement of unfair, deceptive or abusive acts or practices, which may directly impact the business operations of depository institutions offering consumer financial products or services, including the Bank.

The Dodd-Frank Act was signed into law by President Obama on July 21, 2010. The Dodd-Frank Act represents a comprehensive overhaul of the financial services industry within the United States, establishes the new federal Consumer Financial Protection Bureau (the "CFPB"), and will require the CFPB and other federal agencies to implement many new rules.

The CFPB has broad powers to supervise and enforce consumer protection laws. The CFPB has broad rule-making authority for a wide range of consumer protection laws that apply to all banks, including the authority to prohibit unfair, deceptive or abusive acts and practices. In addition, the Dodd-Frank Act enhanced the regulation of mortgage banking and gave to the CFPB oversight of many of the core laws which regulate the mortgage industry and the authority to implement mortgage regulations. New regulations adopted and anticipated to be adopted by the CFPB will significantly impact consumer mortgage lending and servicing.

The CFPB has broad rulemaking authority to administer and carry out the purposes and objectives of the "Federal consumer financial laws, and to prevent evasions thereof," with respect to all financial institutions that offer financial products and services to consumers. The CFPB is also authorized to prescribe rules applicable to any covered person or service provider identifying and prohibiting acts or practices that are "unfair, deceptive, or abusive" in connection with any transaction with a consumer for a consumer financial product or service, or the offering of a consumer financial product or service. The potential reach of the CFPB's broad new rulemaking powers and UDAAP authority on the operations of financial institutions offering consumer financial products or services including the Bank is currently unknown.

The Volcker Rule limits the permissible strategies for managing our investment portfolio.

Effective December 10, 2013, pursuant to the Dodd-Frank Act, federal banking and securities regulators issued final rules to implement Section 619 of the Dodd-Frank Act (the "Volcker Rule"). Generally, subject to a transition period

and certain exceptions, the Volcker Rule restricts insured depository institutions and their affiliated companies from: (i) short-term proprietary trading as principal in securities and other financial instruments, and (ii) sponsoring or acquiring or retaining an ownership interest in private equity and hedge funds. After the transition period, the Volcker Rule prohibitions and restrictions will apply to banking entities, including the Company, unless an exception applies.

A failure in or breach of our operational or security systems, or those of our third party service providers, including as a result of cyber attacks, could disrupt our business, result in unintentional disclosure or misuse of confidential or proprietary information, damage our reputation, increase our costs and adversely impact our earnings.

As a financial institution, our operations rely heavily on the secure processing, storage and transmission of confidential and other information on our computer systems and networks. Any failure, interruption or breach in security or operational integrity of these systems could result in failures or disruptions in our Internet banking system, treasury management products, check and document imaging, remote deposit capture systems, general ledger, and other systems. The security and integrity of our systems could be threatened by a variety of interruptions or information security breaches, including those caused by computer hacking, cyber attacks, electronic fraudulent activity or attempted theft of financial assets. We cannot assure any such failures, interruption or security breaches will not occur, or if they do occur, that they will be adequately addressed. While we have certain protective policies and procedures in place, the nature and sophistication of the threats continue to evolve. We may be required to expend significant additional resources in the future to modify and enhance our protective measures. Additionally, we face the risk of operational disruption, failure, termination or capacity constraints of any of the third parties that facilitate our business activities, including exchanges, clearing agents, clearing houses or other financial intermediaries. Such parties could also be the source of an attack on, or breach of, our operational systems. Any failures, interruptions or security breaches in our information systems could damage our reputation, result in a loss of customer business, result in a violation of privacy or other laws, or expose us to civil litigation, regulatory fines or losses not covered by insurance.

We are subject to environmental risks associated with owning real estate or collateral.

When a borrower defaults on a loan secured by real property, the Bank may purchase the property in foreclosure or accept a deed to the property surrendered by the borrower. We may also take over the management of commercial properties whose owners have defaulted on loans. We may also own and lease premises where branches and other facilities are located. While we will have lending, foreclosure and facilities guidelines intended to exclude properties with an unreasonable risk of contamination, hazardous substances could exist on some of the properties that the Bank may own, manage or occupy. We face the risk that environmental laws could force us to clean up the properties at the Company's expense. The cost of cleaning up or paying damages and penalties associated with environmental problems could increase our operating expenses. It may cost much more to clean a property than the property is worth. We could also be liable for pollution generated by a borrower's operations if the Bank takes a role in managing those operations after a default. The Bank may also find it difficult or impossible to sell contaminated properties.

#### Risks Relating to Our Common Stock

The price of our common stock may be volatile or may decline.

The trading price of our common stock may fluctuate widely as a result of a number of factors, many of which are outside our control. In addition, the stock market is subject to fluctuations in the share prices and trading volumes that affect the market prices of the shares of many companies. These broad market fluctuations could make it more difficult for you to resell your common stock when you want and at prices you find attractive. Our stock price can fluctuate significantly in response to a variety of factors including, among other things:

- actual or anticipated quarterly fluctuations in our operating results and financial condition;
- changes in revenue or earnings estimates or publication of research reports and recommendations by financial analysts;
- failure to meet analysts' revenue or earnings estimates;
- speculation in the press or investment community;
- strategic actions by us or our competitors, such as acquisitions or restructurings;
- actions by institutional stockholders;
- fluctuations in the stock prices and operating results of our competitors;
-



general market conditions and, in particular, developments related to market conditions for the financial services industry;

proposed or adopted regulatory changes or developments;

anticipated or pending investigations, proceedings or litigation that involve or affect us; and/or

domestic and international economic factors unrelated to our performance.

The stock market and, in particular, the market for financial institution stocks, has experienced significant volatility over the last several years. As a result, the market price of our common stock may be volatile. In addition, the trading volume in our common stock may fluctuate more than usual and cause significant price variations to occur. The trading price of the shares of our common stock and the value of our other securities will depend on many factors, which may change from time to time, including, without limitation, our financial condition, performance, creditworthiness and prospects, future sales of our equity or equity related securities, and other factors identified in this annual report and other reports by the Company. In some cases, the markets have produced downward pressure on stock prices and credit availability for certain issuers without regard to those issuers' underlying financial strength or operating results. A significant decline in our stock price could result in substantial losses for individual stockholders and could lead to costly and disruptive securities litigation.

An investment in our common stock is not insured and you could lose the value of your entire investment. An investment in our common stock is not a savings account, deposit or other obligation of our bank subsidiary, any non-bank subsidiary or any other bank, and such investment is not insured or guaranteed by the FDIC or any other governmental agency. As a result, if you acquire our common stock, you may lose some or all of your investment.

Our ability to pay dividends is limited by various statutes and regulations and depends primarily on the Bank's ability to distribute funds to us, and is also limited by various statutes and regulations.

The Company depends on payments from the Bank, including dividends, management fees and payments under tax sharing agreements, for substantially all of the Company's revenue. Federal and state regulations limit the amount of dividends and the amount of payments that the Bank may make to the Company under tax sharing agreements. In certain circumstances, the Missouri Division of Finance, FDIC, or Federal Reserve could restrict or prohibit the Bank from distributing dividends or making other payments to us. In the event that the Bank was restricted from paying dividends to the Company or making payments under the tax sharing agreement, the Company may not be able to service its debt, pay its other obligations or pay dividends on its common stock. If we are unable or determine not to pay dividends on our outstanding equity securities, the market price of such securities could be materially adversely affected.

There can be no assurance of any future dividends on our common stock.

Holders of our common stock are entitled to receive dividends only when, as and if declared by our board of directors. Although we have historically paid cash dividends on our common stock, we are not required to do so.

There may be future sales or other dilution of our equity, which may adversely affect the market price of our common stock.

We are not restricted from issuing additional common stock or preferred stock, including any securities that are convertible into or exchangeable for, or that represent the right to receive, common stock or preferred stock or any substantially similar securities.

In addition, to the extent options to purchase common stock under our employee stock option plans are exercised, or shares are issued, holders of our common stock could incur additional dilution. Further, if we sell additional equity or convertible debt securities, such sales could result in increased dilution to our stockholders. The market price of our common stock could decline as a result of sales of a large number of shares of common stock or preferred stock or similar securities in the market after an offering or the perception that such sales could occur.

Our outstanding debt securities restrict our ability to pay dividends on our capital stock.

We have outstanding subordinated debentures issued to statutory trust subsidiaries, which have issued and sold preferred securities in the Trusts to investors.

If we are unable to make payments on any of our subordinated debentures for more than 20 consecutive quarters, we would be in default under the governing agreements for such securities and the amounts due under such agreements

would be immediately due and payable. Additionally, if for any interest payment period we do not pay interest in respect of the subordinated debentures (which will be used to make distributions on the trust preferred securities), or if for any interest payment period we do not pay interest in respect of the subordinated debentures, or if any other event of default occurs, then we generally will be prohibited from declaring or paying any dividends or other distributions,

or redeeming, purchasing or acquiring, any of our capital securities, including the common stock, during the next succeeding interest payment period applicable to any of the subordinated debentures, or next succeeding interest payment period, as the case may be.

Moreover, any other financing agreements that we enter into in the future may limit our ability to pay cash dividends on our capital stock, including the common stock. In the event that our existing or future financing agreements restrict our ability to pay dividends in cash on the common stock, we may be unable to pay dividends in cash on the common stock unless we can refinance amounts outstanding under those agreements. In addition, if we are unable or determine not to pay interest on our subordinated debentures, the market price of our common stock could be materially or adversely affected.

Anti-takeover provisions could negatively impact our stockholders.

Provisions of Delaware law and of our certificate of incorporation, as amended, and bylaws, as well as various provisions of federal and Missouri state law applicable to bank and bank holding companies, could make it more difficult for a third party to acquire control of us or have the effect of discouraging a third party from attempting to acquire control of us. We are subject to Section 203 of the Delaware General Corporation Law, which would make it more difficult for another party to acquire us without the approval of our board of directors. Additionally, our certificate of incorporation, as amended, authorizes our board of directors to issue preferred stock which could be issued as a defensive measure in response to a takeover proposal. In the event of a proposed merger, tender offer or other attempt to gain control of the Company, our board of directors would have the ability to readily issue available shares of preferred stock as a method of discouraging, delaying or preventing a change in control of the Company. Such issuance could occur whether or not our stockholders favorably view the merger, tender offer or other attempt to gain control of the Company. These and other provisions could make it more difficult for a third party to acquire us even if an acquisition might be in the best interests of our stockholders. Although we have no present intention to issue any shares of our authorized preferred stock, there can be no assurance that the Company will not do so in the future.

#### ITEM 1B: UNRESOLVED STAFF COMMENTS

Not applicable.

#### ITEM 2: PROPERTIES

Our executive offices are located at 150 North Meramec, Clayton, Missouri, 63105. As of December 31, 2014, we had six banking locations and a support center in the St. Louis metropolitan area, eight banking facilities in the Kansas City metropolitan area, and two banking locations in the Phoenix metropolitan area. We own three of the facilities and lease the remainder. Most of the leases expire between 2015 and 2022 and include one or more renewal options of up to 5 years. One lease expires in 2028. All the leases are classified as operating leases. We are actively pursuing a sublease arrangement for one of our banking locations in the Kansas City market that was closed in 2013. In February 2015, the headquarters for Enterprise Trust was relocated from commercial condominium space in Clayton, Missouri, approximately two blocks from the executive offices, to leased space in the same building as the executive offices. We believe all our properties are in good condition.

#### ITEM 3: LEGAL PROCEEDINGS

The Company and its subsidiaries are, from time to time, parties to various legal proceedings arising out of their businesses. Management believes that there are no such proceedings pending or threatened against the Company or its

subsidiaries which, if determined adversely, would have a material adverse effect on the business, consolidated financial condition, results of operations or cash flows of the Company or any of its subsidiaries.

ITEM 4: MINE SAFETY DISCLOSURES

Not applicable.

18

---

## PART II

## ITEM 5: MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

## Common Stock Market Prices

The Company's common stock trades on the NASDAQ Global Select Market under the symbol "EFSC." Below are the dividends declared by quarter along with what the Company believes are the closing, high and low sales prices for the common stock for the periods indicated, as reported by the NASDAQ Global Select Market. There may have been other transactions at prices not known to the Company. As of February 23, 2015, the Company had 439 common stock shareholders of record and a market price of \$20.07 per share. The number of holders of record does not represent the actual number of beneficial owners of our common stock because securities dealers and others frequently hold shares in "street name" for the benefit of individual owners who have the right to vote shares.

|                                      | 2014    |         |         |         | 2013    |         |         |         |
|--------------------------------------|---------|---------|---------|---------|---------|---------|---------|---------|
|                                      | 4th Qtr | 3rd Qtr | 2nd Qtr | 1st Qtr | 4th Qtr | 3rd Qtr | 2nd Qtr | 1st Qtr |
| Closing Price                        | \$19.73 | \$16.72 | \$18.06 | \$20.07 | \$20.42 | \$16.90 | \$15.96 | \$14.34 |
| High                                 | 20.23   | 18.95   | 20.93   | 20.65   | 20.96   | 18.99   | 16.00   | 15.04   |
| Low                                  | 16.38   | 16.70   | 17.02   | 17.67   | 16.38   | 15.94   | 13.06   | 12.97   |
| Cash dividends paid on common shares | 0.0525  | 0.0525  | 0.0525  | 0.0525  | 0.0525  | 0.0525  | 0.0525  | 0.0525  |

## Dividends

The holders of shares of our common stock are entitled to receive dividends when declared by our Board of Directors out of funds legally available for the purpose of paying dividends. Our ability to pay dividends is substantially dependent upon the ability of our subsidiaries to pay cash dividends to us. Information on regulatory restrictions on our ability to pay dividends is set forth in Part I, Item 1 - Business - Supervision and Regulation - Financial Holding Company - Dividend Restrictions. The amount of dividends, if any, that may be declared by the Company also depends on many other factors, including future earnings, bank regulatory capital requirements and business conditions as they affect the Company and its subsidiaries. As a result, no assurance can be given that dividends will be paid in the future with respect to our common stock.

### Performance Graph

The following Stock Performance Graph and related information should not be deemed “soliciting material” or to be “filed” with the SEC nor shall such performance be incorporated by reference into any future filings under the Securities Act of 1933 or Securities Exchange Act of 1934, each as amended, except to the extent that the Company specifically incorporates it by reference into such filing.

The following graph\* compares the cumulative total shareholder return on the Company's common stock from December 31, 2009 through December 31, 2014. The graph compares the Company's common stock with the NASDAQ Composite and the SNL \$1B-\$5B Bank Index. The graph assumes an investment of \$100.00 in the Company's common stock and each index on December 31, 2009 and reinvestment of all quarterly dividends. The investment is measured as of each subsequent fiscal year end. There is no assurance that the Company's common stock performance will continue in the future with the same or similar results as shown in the graph.

| Index                              | Period Ending December 31, |        |        |        |        |        |
|------------------------------------|----------------------------|--------|--------|--------|--------|--------|
|                                    | 2009                       | 2010   | 2011   | 2012   | 2013   | 2014   |
| Enterprise Financial Services Corp | 100.00                     | 138.70 | 199.39 | 179.18 | 283.59 | 277.14 |
| NASDAQ Composite                   | 100.00                     | 118.15 | 117.22 | 138.02 | 193.47 | 222.16 |
| SNL Bank \$1B-\$5B                 | 100.00                     | 113.35 | 103.38 | 127.47 | 185.36 | 193.81 |

\*Source: SNL Financial L.C. Used with permission. All rights reserved.



## ITEM 6: SELECTED FINANCIAL DATA

The following consolidated selected financial data is derived from the Company's audited financial statements as of and for the five years ended December 31, 2014. This information should be read in connection with our audited consolidated financial statements, related notes and "Management's Discussion and Analysis of Financial Condition and Results of Operations" appearing elsewhere in this report.

| (in thousands, except per share and percentage data)                 | Years ended December 31, |             |             |             |             |
|--|--------------------------|-------------|-------------|-------------|-------------|
|  | 2014                     | 2013        | 2012        | 2011        | 2010        |
| <b>EARNINGS SUMMARY:</b>   |                          |             |             |             |             |
| Interest income  | \$131,754                | \$153,289   | \$165,464   | \$142,840   | \$116,394   |
| Interest expense   | 14,386                   | 18,137      | 23,167      | 30,155      | 32,411      |
| Net interest income  | 117,368                  | 135,152     | 142,297     | 112,685     | 83,983      |
| Provision (benefit) for portfolio loan losses                        | 4,409                    | (642)       | ) 8,757     | 13,300      | 33,735      |
| Provision for purchase credit impaired loan losses                   | 1,083                    | 4,974       | 14,033      | 2,803       | —           |
| Noninterest income   | 16,631                   | 9,899       | 9,084       | 18,508      | 18,360      |
| Noninterest expense  | 87,463                   | 90,639      | 85,761      | 76,865      | 61,412      |
| Income before income taxes   | 41,044                   | 50,080      | 42,830      | 38,225      | 7,196       |
| Income tax expense   | 13,871                   | 16,976      | 14,534      | 12,802      | 1,623       |
| Net income   | \$27,173                 | \$33,104    | \$28,296    | \$25,423    | \$5,573     |
| <b>PER SHARE DATA:</b>   |                          |             |             |             |             |
| Basic earnings per common share                                      | \$1.38                   | \$1.78      | \$1.41      | \$1.37      | \$0.21      |
| Diluted earnings per common share                                    | 1.35                     | 1.73        | 1.37        | 1.34        | 0.21        |
| Cash dividends paid on common shares                                 | 0.21                     | 0.21        | 0.21        | 0.21        | 0.21        |
| Book value per common share  | 15.94                    | 14.47       | 13.09       | 11.61       | 9.89        |
| Tangible book value per common share                                 | 14.20                    | 12.62       | 10.99       | 9.38        | 9.67        |
| <b>BALANCE SHEET DATA:</b>   |                          |             |             |             |             |
| Ending balances:   |                          |             |             |             |             |
| Portfolio loans  | \$2,433,916              | \$2,137,313 | \$2,106,039 | \$1,897,074 | \$1,766,351 |
| Allowance for loan losses (1)  | 30,185                   | 27,289      | 34,330      | 37,989      | 42,759      |
| Purchase credit impaired loans, net of the allowance for loan losses | 83,693                   | 125,100     | 189,571     | 298,975     | 121,570     |
| Goodwill   | 30,334                   | 30,334      | 30,334      | 30,334      | 2,064       |
| Other intangible assets, net   | 4,164                    | 5,418       | 7,406       | 9,285       | 1,223       |
| Total assets   | 3,277,003                | 3,170,197   | 3,325,786   | 3,377,779   | 2,800,199   |
| Deposits   | 2,491,510                | 2,534,953   | 2,658,851   | 2,791,353   | 2,297,721   |
| Subordinated debentures  | 56,807                   | 62,581      | 85,081      | 85,081      | 85,081      |
| Other borrowings   | 383,883                  | 264,331     | 325,070     | 256,545     | 226,633     |
| Shareholders' equity   | 316,241                  | 279,705     | 235,745     | 239,565     | 179,801     |
| Average balances:  |                          |             |             |             |             |
| Portfolio loans  | \$2,255,180              | \$2,097,920 | \$1,953,427 | \$1,819,536 | \$1,782,023 |
| Purchase credit impaired loans                                       | 119,504                  | 168,662     | 243,359     | 232,363     | 71,152      |
| Earning assets   | 2,921,978                | 2,875,765   | 2,909,532   | 2,766,240   | 2,260,858   |
| Total assets   | 3,156,994                | 3,126,537   | 3,230,928   | 3,096,147   | 2,454,023   |

Edgar Filing: ENTERPRISE FINANCIAL SERVICES CORP - Form 10-K

|                              |           |           |           |           |           |
|------------------------------|-----------|-----------|-----------|-----------|-----------|
| Interest-bearing liabilities | 2,209,188 | 2,237,111 | 2,340,612 | 2,377,044 | 1,957,390 |
| Shareholders' equity         | 301,756   | 259,106   | 252,464   | 213,650   | 178,631   |

21

---

| (in thousands, except per share and percentage data) | Years ended December 31, |         |         |         |        |   |
|--|--------------------------|---------|---------|---------|--------|---|
|  | 2014                     | 2013    | 2012    | 2011    | 2010   |   |
| <b>SELECTED RATIOS:</b>                              |                          |         |         |         |        |   |
| Return on average common equity                      | 9.01                     | % 12.78 | % 11.21 | % 12.67 | % 2.12 | % |
| Return on average assets                             | 0.86                     | 1.06    | 0.78    | 0.74    | 0.13   |   |
| Efficiency ratio                                     | 65.27                    | 62.49   | 56.65   | 58.59   | 60.01  |   |
| Average common equity to average assets              | 9.56                     | 8.29    | 6.93    | 5.84    | 5.97   |   |
| Total portfolio loan yield - tax equivalent          | 5.14                     | 6.36    | 7.05    | 6.38    | 5.90   |   |
| Cost of interest-bearing liabilities                 | 0.65                     | 0.81    | 0.99    | 1.27    | 1.66   |   |
| Net interest spread                                  | 3.91                     | 4.60    | 4.75    | 3.94    | 3.53   |   |
| Net interest margin                                  | 4.07                     | 4.78    | 4.94    | 4.12    | 3.76   |   |
| Nonperforming loans to total loans (1)               | 0.91                     | 0.98    | 1.84    | 2.19    | 2.62   |   |
| Nonperforming assets to total assets (1)             | 0.74                     | 0.90    | 1.44    | 1.74    | 2.59   |   |
| Net chargeoffs to average loans (1)                  | 0.07                     | 0.31    | 0.64    | 0.99    | 1.91   |   |
| Allowance for loan losses to total loans (1)         | 1.24                     | 1.28    | 1.63    | 2.00    | 2.42   |   |
| Dividend payout ratio - basic                        | 15.37                    | 11.92   | 13.28   | 14.07   | 56.00  |   |

(1) Amounts and ratios exclude PCI loans and other assets covered under FDIC loss share agreements, except for their inclusion in total assets.

## ITEM 7: MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

### Introduction

The objective of this section is to provide an overview of the results of operations and financial condition of the Company for the three years ended December 31, 2014. It should be read in conjunction with the Consolidated Financial Statements, Notes and other financial data presented elsewhere in this report, particularly the information regarding the Company's business operations described in Item 1.

### Executive Summary

Below are highlights of our financial performance for the year ended December 31, 2014 as compared to the years ended December 31, 2013 and December 31, 2012.

| (in thousands, except per share data)               | For the Years ended December 31, |            |            |   |
|---|----------------------------------|------------|------------|---|
|   | 2014                             | 2013       | 2012       |   |
| <b>EARNINGS</b>                                     |                                  |            |            |   |
| Total interest income                               | \$ 131,754                       | \$ 153,289 | \$ 165,464 |   |
| Total interest expense                              | 14,386                           | 18,137     | 23,167     |   |
| Net interest income                                 | 117,368                          | 135,152    | 142,297    |   |
| Provision (benefit) for portfolio loans             | 4,409                            | (642       | ) 8,757    |   |
| Provision for purchase credit impaired loans        | 1,083                            | 4,974      | 14,033     |   |
| Net interest income after provision for loan losses | 111,876                          | 130,820    | 119,507    |   |
| Fee income  | 20,859                           | 22,526     | 19,901     |   |
| Other noninterest income                            | (4,228                           | ) (12,627  | ) (10,817  |   |
| Total noninterest income                            | 16,631                           | 9,899      | 9,084      |   |
| Total noninterest expenses                          | 87,463                           | 90,639     | 85,761     |   |
| Income before income tax expense                    | 41,044                           | 50,080     | 42,830     |   |
| Income tax expense                                  | 13,871                           | 16,976     | 14,534     |   |
| Net income  | \$27,173                         | \$33,104   | \$28,296   |   |
| Basic earnings per share                            | \$ 1.38                          | \$ 1.78    | \$ 1.41    |   |
| Diluted earnings per share                          | 1.35                             | 1.73       | 1.37       |   |
| Return on average assets                            | 0.86                             | % 1.06     | % 0.78     | % |
| Return on average common equity                     | 9.01                             | % 12.78    | % 11.21    | % |
| Net interest margin (fully tax equivalent)          | 4.07                             | % 4.78     | % 4.94     | % |
| Efficiency ratio                                    | 65.27                            | % 62.49    | % 56.65    | % |
| <b>ASSET QUALITY (1)</b>                            |                                  |            |            |   |
| Net charge-offs                                     | \$ 1,512                         | \$ 6,400   | \$ 12,416  |   |
| Nonperforming loans                                 | 22,244                           | 20,840     | 38,727     |   |
| Classified assets                                   | 77,898                           | 83,843     | 111,266    |   |
| Nonperforming loans to total loans                  | 0.91                             | % 0.98     | % 1.84     | % |
| Nonperforming assets to total assets                | 0.74                             | % 0.90     | % 1.44     | % |
| Allowance for loan losses to total loans            | 1.24                             | % 1.28     | % 1.63     | % |
| Net charge-offs to average loans                    | 0.07                             | % 0.31     | % 0.64     | % |

(1) Excludes PCI loans and other assets covered under FDIC loss share agreements, except for their inclusion in total assets.

23

---

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 of other real estate covered under FDIC loss share agreements, 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 Years ended December 31, |          |           |   |
|--|----------------------------------|----------|-----------|---|
|  | 2014                             | 2013     | 2012      |   |
| <b>CORE PERFORMANCE MEASURES (1)</b>       |                                  |          |           |   |
| Net interest income                        | \$98,438                         | \$99,805 | \$102,376 |   |
| Provision (benefit) for portfolio loans    | 4,409                            | (642)    | ) 8,757   |   |
| Noninterest income                         | 24,548                           | 24,662   | 20,716    |   |
| Noninterest expense                        | 79,369                           | 81,736   | 78,552    |   |
| Income before income tax expense           | 39,208                           | 43,373   | 35,783    |   |
| Income tax expense                         | 13,165                           | 14,407   | 11,835    |   |
| Net income                                 | \$26,043                         | \$28,966 | \$23,948  |   |
| <br>                                       |                                  |          |           |   |
| Earnings per share                         | \$1.29                           | \$1.47   | \$1.24    |   |
| Return on average assets                   | 0.82                             | % 0.93   | % 0.74    | % |
| Return on average common equity            | 8.63                             | % 11.18  | % 9.49    | % |
| Net interest margin (fully tax equivalent) | 3.42                             | % 3.55   | % 3.57    | % |
| Efficiency ratio                           | 64.53                            | % 65.67  | % 63.82   | % |

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

The Company noted the following trends during 2014:

The Company reported net income of \$27.2 million for 2014, compared to \$33.1 million for 2013. The Company reported diluted earnings per share of \$1.35 and \$1.73 in the same respective periods. The decrease in net income for the current year is due primarily to reduced revenue from our PCI loans, lower interest yields on our portfolio loans offsetting volume gains, as well as lower investment security gains.

On a core basis<sup>1</sup>, net income was \$26.0 million, or \$1.29 per share in 2014 compared to \$29.0 million, or \$1.47 per share in 2013. The decrease was primarily due to a benefit for provision for loan losses recorded in the prior year, partially offset by reduced noninterest expenses.

Net interest income decreased \$17.8 million in 2014 from 2013. The decrease was due to lower balances and lower accelerated payments on PCI loans, lower prepayment fees on portfolio loans, and lower interest rates on newly originated loans. These items were offset by higher balances of portfolio loans and lower interest expense from the conversion of \$25.0 million of trust preferred securities to common equity and the prepayment of FHLB borrowings, both of which carried relatively higher interest rates.

On a core basis<sup>1</sup>, net interest income declined \$1.4 million as increases in portfolio loan balances and improved funding costs were slightly outweighed by lower loan yields.

•

The Core net interest margin<sup>1</sup>, defined as Net interest margin (fully tax equivalent), including contractual interest on PCI loans, but excluding the incremental accretion on these loans, declined 13 basis points from the prior year primarily due to lower balances of PCI loans. The Average Balance Sheet and Rate/Volume sections following contain additional information regarding our net interest income.

Fee income, which primarily includes the Company's wealth management revenue, service charges and other fees on deposit accounts, sales of other real estate, and state tax brokerage activity, decreased \$1.7 million compared to 2013 primarily due to lower gains on sales of other real estate.

Total Noninterest expenses declined \$3.2 million in 2014 from 2013, or \$2.4 million on a Core basis<sup>1</sup> due to lower professional fees, loan legal expenses, and occupancy costs.

#### 2014 Significant Transactions

During 2014, we completed the following significant transactions resulting from the Company's focus on expense and interest rate risk management:

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

On December 23, 2014, the Company prepaid \$50.0 million of debt with the FHLB with a weighted average interest rate of 3.17%, and a maturity of 3 years, and incurred a prepayment penalty of \$2.9 million before taxes.

#### 2013 Significant Transactions

During 2013, we completed the following significant transactions:

On August 15, 2013, the Company converted \$20.0 million, 9% coupon, trust preferred securities to shares of common stock. As a result of the transaction, the Company reduced its long-term debt by \$20.0 million and issued an aggregate of 1.2 million shares of common stock. The Company issued 25,060 shares of additional common stock as inducement for the conversion, which resulted in a \$0.4 million, one-time, non-cash expense being recorded.

On December 6, 2013, the Company completed the sale and closure of four of its branches in the Kansas City region. Two of the branches, as well as \$7.6 million of loans and \$78.4 million of deposits, as well as \$1.5 million of other assets were sold to another financial institution. The Company recorded a pre-tax gain of approximately \$1.0 million upon completion of the transaction primarily attributed to a premium on the deposits that were sold.

On December 30, 2013, the Company prepaid \$30.0 million of debt with the FHLB with a weighted average interest rate of 4.09%, and a maturity of 3 years, and incurred a prepayment penalty of \$2.6 million before taxes.

#### Balance sheet highlights

Loans - Loans totaled \$2.5 billion at December 31, 2014, including \$99.1 million of purchase credit impaired ("PCI") loans. Portfolio loans excluding PCI loans increased \$296.6 million, or 14%, from December 31, 2013. Commercial & Industrial loans increased \$228.7 million, or 22%, Consumer and other loans increased \$22.2 million, or 54%, Construction loans and Residential real estate loans increased \$54.5 million, or 20%, and Commercial Real Estate decreased \$8.8 million, or 1%. See Item 8, Note 6 – Portfolio Loans for more information.

Deposits – Total deposits at December 31, 2014 were \$2.5 billion, a decrease of \$43.4 million, or 2%, from December 31, 2013 primarily from reductions in higher cost time deposit balances.

Asset quality – Nonperforming loans, including troubled debt restructurings, were \$22.2 million at December 31, 2014, compared to \$20.8 million at December 31, 2013. Nonperforming loans represented 0.91% of portfolio loans at December 31, 2014 versus 0.98% at December 31, 2013. There were \$1.9 million of portfolio loans that were 30-89 days delinquent and still accruing at December 31, 2014 as compared to \$0.1 million at December 31, 2013.





Provision for portfolio loan losses was an expense of \$4.4 million in 2014, compared to a benefit of \$0.6 million in 2013. The Company experienced lower levels of net chargeoffs in 2014 as compared to 2013 and 2012, but recorded more provision expense as loan balances increased 14% in 2014. See Item 8, Note 6 – Portfolio Loans and, Provision for Loan Losses 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)  | For the years ended December 31, |                         |                            |                 |                         |                            |                 |                         |                            |  |
|---|----------------------------------|-------------------------|----------------------------|-----------------|-------------------------|----------------------------|-----------------|-------------------------|----------------------------|--|
|   | 2014                             |                         |                            | 2013            |                         |                            | 2012            |                         |                            |  |
|   | Average Balance                  | Interest Income/Expense | Average Yield/Expense Rate | Average Balance | Interest Income/Expense | Average Yield/Expense Rate | Average Balance | Interest Income/Expense | Average Yield/Expense Rate |  |
| <b>Assets</b>   |                                  |                         |                            |                 |                         |                            |                 |                         |                            |  |
| <b>Interest-earning assets:</b>                           |                                  |                         |                            |                 |                         |                            |                 |                         |                            |  |
| Taxable portfolio loans (1)                               | \$2,223,835                      | \$93,604                | 4.21 %                     | \$2,058,086     | \$94,428                | 4.59 %                     | \$1,918,567     | \$96,694                | 5.04 %                     |  |
| Tax-exempt portfolio loans (2)                            | 35,058                           | 2,358                   | 6.73                       | 45,932          | 3,738                   | 8.14                       | 34,860          | 2,580                   | 7.40                       |  |
| Purchase credit impaired loans                            | 119,504                          | 26,336                  | 22.04                      | 168,662         | 46,468                  | 27.55                      | 243,359         | 55,661                  | 22.87                      |  |
| Total loans   | 2,378,397                        | 122,298                 | 5.14                       | 2,272,680       | 144,634                 | 6.36                       | 2,196,786       | 154,935                 | 7.05                       |  |
| <b>Taxable investments in debt and equity securities</b>  |                                  |                         |                            |                 |                         |                            |                 |                         |                            |  |
| Non-taxable investments in debt and equity securities (2) | 41,088                           | 1,919                   | 4.67                       | 44,158          | 1,979                   | 4.48                       | 34,432          | 1,577                   | 4.58                       |  |
| Short-term investments                                    | 77,611                           | 187                     | 0.24                       | 96,912          | 210                     | 0.22                       | 110,050         | 257                     | 0.23                       |  |
| Total securities and short-term investments               | 543,581                          | 11,090                  | 2.04                       | 603,085         | 10,878                  | 1.80                       | 712,746         | 12,026                  | 1.69                       |  |
| Total interest-earning assets                             | 2,921,978                        | 133,388                 | 4.56                       | 2,875,765       | 155,512                 | 5.41                       | 2,909,532       | 166,961                 | 5.74                       |  |
| <b>Noninterest-earning assets:</b>                        |                                  |                         |                            |                 |                         |                            |                 |                         |                            |  |
| Cash and due from banks                                   | 29,680                           |                         |                            | 17,315          |                         |                            | 16,311          |                         |                            |  |
| Other assets  | 250,985                          |                         |                            | 276,443         |                         |                            | 345,325         |                         |                            |  |
| Allowance for loan losses                                 | (45,649 )                        |                         |                            | (42,986 )       |                         |                            | (40,240 )       |                         |                            |  |
| Total assets  | \$3,156,994                      |                         |                            | \$3,126,537     |                         |                            | \$3,230,928     |                         |                            |  |
| <b>Liabilities and Shareholders'</b>                      |                                  |                         |                            |                 |                         |                            |                 |                         |                            |  |

|  |             |           |        |             |           |        |             |           |        |  |
|--|-------------|-----------|--------|-------------|-----------|--------|-------------|-----------|--------|--|
| Equity                                   |             |           |        |             |           |        |             |           |        |  |
| Interest-bearing liabilities:            |             |           |        |             |           |        |             |           |        |  |
| Interest-bearing transaction accounts    | \$311,974   | \$653     | 0.21 % | \$232,010   | \$461     | 0.20 % | \$257,193   | \$721     | 0.28 % |  |
| Money market accounts                    | 852,015     | 2,716     | 0.32   | 939,857     | 3,080     | 0.33   | 1,026,444   | 4,679     | 0.46   |  |
| Savings                                  | 81,131      | 201       | 0.25   | 88,633      | 225       | 0.25   | 70,470      | 275       | 0.39   |  |
| Certificates of deposit                  | 586,220     | 6,917     | 1.18   | 578,562     | 7,376     | 1.27   | 675,224     | 9,731     | 1.44   |  |
| Total interest-bearing deposits          | 1,831,340   | 10,487    | 0.57   | 1,839,062   | 11,142    | 0.61   | 2,029,331   | 15,406    | 0.76   |  |
| Subordinated debentures                  | 57,930      | 1,322     | 2.28   | 76,297      | 3,019     | 3.96   | 85,081      | 4,082     | 4.80   |  |
| Other borrowed funds                     | 319,918     | 2,577     | 0.81   | 321,752     | 3,976     | 1.24   | 226,200     | 3,679     | 1.63   |  |
| Total interest-bearing liabilities       | 2,209,188   | 14,386    | 0.65   | 2,237,111   | 18,137    | 0.81   | 2,340,612   | 23,167    | 0.99   |  |
| Noninterest bearing liabilities:         |             |           |        |             |           |        |             |           |        |  |
| Demand deposits                          | 622,714     |           |        | 614,413     |           |        | 627,197     |           |        |  |
| Other liabilities                        | 23,336      |           |        | 15,907      |           |        | 10,655      |           |        |  |
| Total liabilities                        | 2,855,238   |           |        | 2,867,431   |           |        | 2,978,464   |           |        |  |
| Shareholders' equity                     | 301,756     |           |        | 259,106     |           |        | 252,464     |           |        |  |
| Total liabilities & shareholders' equity | \$3,156,994 |           |        | \$3,126,537 |           |        | \$3,230,928 |           |        |  |
| Net interest income                      |             | \$119,002 |        |             | \$137,375 |        |             | \$143,794 |        |  |
| Net interest spread                      |             |           | 3.91 % |             |           | 4.60 % |             |           | 4.75 % |  |
| Net interest margin                      |             |           | 4.07 % |             |           | 4.78 % |             |           | 4.94 % |  |

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 \$0.9 million, \$1.5 million, and \$1.5 million for the years ended December 31, 2014, 2013, and 2012 respectively.

Non-taxable income is presented on a fully tax-equivalent basis using a 38% tax rate in 2014 and 2013, and 36% (2) for 2012. The tax-equivalent adjustments were \$1.6 million, \$2.2 million, and \$1.5 million for the years ended December 31, 2014, 2013, and 2012 respectively.

#### Rate/Volume

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

| (in thousands)  | 2014 compared to 2013                |            |            | 2013 compared to 2012                |           |            |
|---|--------------------------------------|------------|------------|--------------------------------------|-----------|------------|
|   | Increase (decrease) due to Volume(1) | Rate(2)    | Net        | Increase (decrease) due to Volume(1) | Rate(2)   | Net        |
| <b>Interest earned on:</b>                                |                                      |            |            |                                      |           |            |
| Taxable portfolio loans                                   | \$7,295                              | \$(8,119)  | \$(824)    | \$6,749                              | \$(9,015) | \$(2,266)  |
| Tax-exempt portfolio loans (3)                            | (796)                                | (584)      | (1,380)    | 881                                  | 277       | 1,158      |
| Purchase credit impaired loans                            | (11,937)                             | (8,195)    | (20,132)   | (19,182)                             | 9,989     | (9,193)    |
| Taxable investments in debt and equity securities         | (732)                                | 1,027      | 295        | (1,979)                              | 476       | (1,503)    |
| Non-taxable investments in debt and equity securities (3) | (141)                                | 81         | (60)       | 437                                  | (35)      | 402        |
| Short-term investments                                    | (45)                                 | 22         | (23)       | (29)                                 | (18)      | (47)       |
| Total interest-earning assets                             | \$(6,356)                            | \$(15,768) | \$(22,124) | \$(13,123)                           | \$1,674   | \$(11,449) |
| <b>Interest paid on:</b>                                  |                                      |            |            |                                      |           |            |
| Interest-bearing transaction accounts                     | \$166                                | \$26       | \$192      | \$(66)                               | \$(194)   | \$(260)    |
| Money market accounts                                     | (282)                                | (82)       | (364)      | (369)                                | (1,230)   | (1,599)    |
| Savings   | (19)                                 | (5)        | (24)       | 60                                   | (110)     | (50)       |
| Certificates of deposit                                   | 97                                   | (556)      | (459)      | (1,304)                              | (1,051)   | (2,355)    |
| Subordinated debentures                                   | (615)                                | (1,082)    | (1,697)    | (394)                                | (669)     | (1,063)    |
| Borrowed funds  | (23)                                 | (1,376)    | (1,399)    | 1,316                                | (1,019)   | 297        |
| Total interest-bearing liabilities                        | (676)                                | (3,075)    | (3,751)    | (757)                                | (4,273)   | (5,030)    |
| Net interest income                                       | \$(5,680)                            | \$(12,693) | \$(18,373) | \$(12,366)                           | \$5,947   | \$(6,419)  |

(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 a 38% tax rate for 2014 and 2013 and 36% for 2012.

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.

#### Purchase Credit Impaired "PCI" Contribution

The following table illustrates the financial contribution of PCI loans and other assets covered under FDIC shared loss agreements for the most recent three fiscal years.



| (in thousands)   | For the Years ended  |                      |                      |
|--|----------------------|----------------------|----------------------|
|  | December 31,<br>2014 | December 31,<br>2013 | December 31,<br>2012 |
| Contractual interest income                            | \$7,408              | \$11,121             | \$15,740             |
| Accelerated cash flows and other incremental accretion | 18,930               | 35,347               | 39,921               |
| Estimated funding cost                                 | (1,404)              | ) (3,429             | ) (5,303             |
| Total net interest income                              | 24,934               | 43,039               | 50,358               |
| (Provision) for loan losses                            | (1,083)              | ) (4,974             | ) (14,033            |
| Gain/(loss) on sale of other real estate               | 445                  | 1,071                | 2,081                |
| Change in FDIC loss share receivable                   | (9,307)              | ) (18,173            | ) (14,869            |
| Change in FDIC clawback liability                      | (1,201)              | ) (951               | ) (575               |
| Other expenses   | (2,928)              | ) (4,552             | ) (6,627             |
| PCI assets income before income tax expense            | \$10,860             | \$15,460             | \$16,335             |

At December 31, 2014, the remaining accretable yield on the portfolio was estimated to be \$29 million and the non-accretable difference was approximately \$66 million. Absent cash flow accelerations or pool impairment, the Company currently estimates average PCI loans balances to be approximately \$80 million and income before tax expense on PCI assets will be approximately \$6 million to \$8 million in 2015.

#### Comparison of 2014 and 2013

Net interest income (on a tax equivalent basis) was \$119.0 million for 2014 compared to \$137.4 million for 2013, a decrease of \$18.4 million, or 13%. Total interest income decreased \$22.1 million and total interest expense decreased \$3.8 million.

Average interest-earning assets increased \$46.2 million, or 2%, to \$2.9 billion for the year ended December 31, 2014. Average loans increased \$105.7 million, or 5%, to \$2.4 billion for the year ended December 31, 2014 from \$2.3 billion for the year ended December 31, 2013 primarily due to strong C&I origination in 2014. Average securities and short-term investments decreased \$59.5 million, to \$543.6 million from 2013 as core deposits declined and portfolio loan volume accelerated slightly. Interest income on earning assets decreased \$6.4 million due to lower volumes and decreased \$15.8 million due to lower rates. The decrease in volume was primarily due to the continued pay-off of PCI loans, offset by higher yields on the remaining balance of related loans. Portfolio loans saw a \$6.5 million increase in interest income due to volume, offset by an \$8.7 million decrease in interest income due to rates.

For the year ended December 31, 2014, average interest-bearing liabilities decreased \$27.9 million, or 1%, to \$2.21 billion compared to \$2.24 billion for the year ended December 31, 2013. The decrease in average interest-bearing liabilities resulted from the payoff of \$5 million trust preferred securities and a \$95.3 million decline in average money market accounts and savings accounts. The significant decrease in money market and saving accounts was due to the Company's continued initiative to lower its cost of funds as well as continued historically low rates deterring clients from deposit accounts. For the year ended December 31, 2014, interest expense on interest-bearing liabilities decreased \$3.1 million due to lower rates and \$0.7 million due to the impact of lower volumes, versus the same period in 2013.

For the year ended December 31, 2014, the tax-equivalent net interest margin was 4.07%, compared to 4.78% in the same period of 2013. The decrease in margin was primarily due to lower yields on newly originated portfolio loans, the pay-off of higher-yielding PCI loans lessening their impact on the overall margin, offset by reduced rates on interest-bearing liabilities due to continued low interest rates, as well as the previously mentioned FHLB debt repayments and the conversion of \$25 million of our trust preferred securities with a 9% coupon rate to common equity.

Comparison of 2013 and 2012

Net interest income (on a tax equivalent basis) was \$137.4 million for 2013 compared to \$143.8 million for 2012, a decrease of \$6.4 million, or 4%. Total interest income decreased \$11.4 million and total interest expense decreased \$5.0 million.

29

---



Average interest-earning assets decreased \$33.8 million, or 1%, to \$2.9 billion for the year ended December 31, 2013. Average loans increased \$75.9 million, or 3%, to \$2.3 billion for the year ended December 31, 2013 from \$2.2 billion for the year ended December 31, 2012 primarily due to strong C&I origination in 2013. Average securities and short-term investments decreased \$109.7 million, to \$603.1 million from 2012 as core deposits declined and portfolio loan volume accelerated slightly. Interest income on earning assets decreased \$13.1 million due to lower volumes and increased \$1.7 million due to higher rates. The decrease in volume was primarily due to the continued pay-off of PCI loans, offset by higher yields on the remaining balance of related loans. Portfolio loans saw a \$7.6 million increase in interest income due to volume, offset by an \$8.7 million decrease in interest income due to rates.

For the year ended December 31, 2013, average interest-bearing liabilities decreased \$103.5 million, or 4%, to \$2.2 billion compared to \$2.3 billion for the year ended December 31, 2012. The decrease in average interest-bearing liabilities resulted from a \$190.3 million decrease in average interest-bearing deposits. This decrease resulted from a \$96.7 million decline in certificates of deposits, \$68.4 million decline in average money market accounts and savings accounts, and a decrease of \$25.2 million in interest-bearing transaction accounts. The significant decrease in certificates of deposits and money market and saving accounts was due to the Company's continued initiative to lower its cost of funds as well as continued historically low rates deterring clients from deposit accounts. For the year ended December 31, 2013, interest expense on interest-bearing liabilities decreased \$4.3 million due to declining rates and \$0.8 million due to the impact of lower volumes, versus the same period in 2012.

For the year ended December 31, 2013, the tax-equivalent net interest margin was 4.78%, compared to 4.94% in the same period of 2012. The decrease in margin was primarily due to lower yields on newly originated portfolio loans, the pay-off of higher-yielding PCI loans lessening their impact on the overall margin, offset by reduced rates on interest-bearing liabilities due to continued low interest rates, as well as the conversion of \$20 million of our trust preferred securities with a 9% coupon rate to common equity.

#### Noninterest Income

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

| (in thousands)   | Years ended December 31, |          |          | Change from   |               |
|--|--------------------------|----------|----------|---------------|---------------|
|  | 2014                     | 2013     | 2012     | 2014 vs. 2013 | 2013 vs. 2012 |
| Wealth management revenue  | \$6,942                  | \$7,118  | \$7,300  | \$(176)       | \$(182)       |
| Service charges on deposit accounts  | 7,181                    | 6,825    | 5,664    | 356           | 1,161         |
| Other service charges and fee income                                       | 2,953                    | 2,717    | 2,504    | 236           | 213           |
| Sale of other real estate  | 1,086                    | 2,292    | 144      | (1,206)       | 2,148         |
| State tax credit activity, net   | 2,252                    | 2,503    | 2,207    | (251)         | 296           |
| Miscellaneous income   | 4,134                    | 3,207    | 2,897    | 927           | 310           |
| Core noninterest income (1)  | 24,548                   | 24,662   | 20,716   | (114)         | 3,946         |
| Gain on sale of branches   | —                        | 1,044    | —        | (1,044)       | 1,044         |
| Gain on sale of other real estate covered under FDIC loss share agreements | 445                      | 1,071    | 2,081    | (626)         | (1,010)       |
| Gain on sale of investment securities                                      | —                        | 1,295    | 1,156    | (1,295)       | 139           |
| Change in FDIC loss share receivable                                       | (9,307)                  | (18,173) | (14,869) | 8,866         | (3,304)       |
| Closing fee  | 945                      | \$—      | \$—      | 945           | —             |

|                          |          |         |         |         |       |
|--------------------------|----------|---------|---------|---------|-------|
| Total noninterest income | \$16,631 | \$9,899 | \$9,084 | \$6,732 | \$815 |
|--------------------------|----------|---------|---------|---------|-------|

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

30

---

Noninterest income increased \$6.7 million, or 68% in 2014 compared to 2013. The increase was largely due to a decrease in the loss from the Change in FDIC loss share receivable of \$8.9 million. Core noninterest income<sup>1</sup> declined slightly in 2014 due to lower gains on sale of other real estate than in 2013. Wealth management revenues declined slightly in 2014 as the Company terminated less profitable relationships during 2013. Assets under administration at December 31, 2014 increased to \$1.5 billion, compared to \$1.4 billion at December 31, 2013. Miscellaneous income increased in 2014 due to higher average bank owned life insurance balances and an increase in management fees associated with our New Markets Tax Credit allocations.

## Noninterest Expense

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

| (in thousands)                                   | Years ended December 31, |          |          | Change from      |               |
|--|--------------------------|----------|----------|------------------|---------------|
|  | 2014                     | 2013     | 2012     | 2014 vs.<br>2013 | 2013 vs. 2012 |
| Core expenses (1):                               |                          |          |          |                  |               |
| Employee compensation and benefits - core        | \$45,717                 | \$43,817 | \$40,462 | \$1,900          | \$3,355       |
| Occupancy, furniture and equipment - core        | 6,420                    | 7,166    | 6,929    | (746)            | ) 237         |
| Data processing - core                           | 4,214                    | 3,865    | 3,112    | 349              | 753           |
| FDIC and other insurance                         | 2,884                    | 3,244    | 3,491    | (360)            | ) (247)       |
| Professional fees - core                         | 3,815                    | 4,777    | 4,583    | (962)            | ) 194         |
| Loan, legal and other real estate expense - core | 2,909                    | 3,926    | 4,177    | (1,017)          | ) (251)       |
| Other - core                                     | 13,410                   | 14,941   | 15,798   | (1,531)          | ) (857)       |
| Core noninterest expense (1)                     | 79,369                   | 81,736   | 78,552   | (2,367)          | ) 3,184       |
| FDIC clawback                                    | 1,201                    | 951      | 575      | 250              | 376           |
| FHLB prepayment penalty                          | 2,936                    | 2,590    | —        | 346              | 2,590         |
| Facilities charge                                | 1,004                    | 797      | —        | 207              | 797           |
| Other loss share expenses                        | 2,953                    | 4,565    | 6,634    | (1,612)          | ) (2,069)     |
| Total noninterest expense                        | \$87,463                 | \$90,639 | \$85,761 | \$(3,176)        | ) \$4,878     |

(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 decreased \$3.1 million or 4% in 2014. Noninterest expenses during 2014 included a charge of \$2.9 million for the aforementioned FHLB prepayment penalty and \$1.0 million for costs associated with the sale of an office property. The office property sale will result in lower occupancy expenses prospectively. Core noninterest expense<sup>1</sup> declined \$2.3 million from lower loan, legal, and other real estate expenses due to improved asset quality, professional fees primarily from lower legal expenses, and other expenses reflecting reduced investment management expenses and intangible amortization.

The Company expects noninterest expenses to be between \$19 million and \$21 million per quarter in 2015.

## Income Taxes

In 2014, the Company recorded income tax expense of \$13.9 million on pre-tax income of \$41.0 million, resulting in an effective tax rate of 33.8%. The Company's effective tax rate was slightly lower than 2013, as pre-tax income was lower than 2013 lessening the impact of permanent items. The following items impacted the 2014 effective tax rate: interest income on tax exempt mortgages and municipal bonds of \$0.9 million.

In 2013, the Company recorded income tax expense of \$17.0 million on pre-tax income of \$50.1 million, resulting in an effective tax rate of 33.9%. The following items impacted the 2013 effective tax rate:

interest income on tax exempt mortgages and municipal bonds of \$1.2 million.

decrease in the tax rate used for deferred tax assets of \$0.3 million.

In 2012, the Company recorded income tax expense of \$14.5 million on pre-tax income of \$42.8 million, resulting in an effective tax rate of 33.9%. The following items were included in Income tax expense and impacted the 2012 effective tax rate:

- interest income on tax exempt mortgages and municipal bonds of \$0.9 million.
- reversal of a \$0.3 million state deferred tax asset valuation allowance

## FINANCIAL CONDITION

## Summary Balance Sheet

| (in thousands)                  | December 31, |           |           | % Increase (Decrease) |               |        |    |
|---------------------------------|--------------|-----------|-----------|-----------------------|---------------|--------|----|
|                                 | 2014         | 2013      | 2012      | 2014 vs. 2013         | 2013 vs. 2012 |        |    |
| Total cash and cash equivalents | \$100,696    | \$210,569 | \$116,370 | (52.18                | )%            | 80.95  | %  |
| Securities                      | 446,131      | 434,587   | 640,212   | 2.66                  | %             | (32.12 | )% |
| Portfolio loans                 | 2,433,916    | 2,137,313 | 2,106,039 | 13.88                 | %             | 1.48   | %  |
| Purchase credit impaired loans  | 83,693       | 125,100   | 189,571   | (33.10                | )%            | (34.01 | )% |
| Total assets                    | 3,277,003    | 3,170,197 | 3,325,786 | 3.37                  | %             | (4.68  | )% |
| Deposits                        | 2,491,510    | 2,534,953 | 2,658,851 | (1.71                 | )%            | (4.66  | )% |
| Total liabilities               | 2,960,762    | 2,890,492 | 3,090,041 | 2.43                  | %             | (6.46  | )% |
| Total shareholders' equity      | 316,241      | 279,705   | 235,745   | 13.06                 | %             | 18.65  | %  |

## Assets

## Loans by Type

The Company grants commercial, residential, and consumer loans primarily in the St. Louis, Kansas City and Phoenix metropolitan areas. The Company has a diversified loan portfolio, with no particular concentration of credit in any one economic sector; however, a substantial portion of the portfolio is concentrated in and secured by real estate 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 sets forth the composition of the Company's loan portfolio by type of loans as reported in the quarterly Federal Financial Institutions Examination Council Report of Condition and Income ("Call report") at the dates indicated.

| (in thousands)                    | December 31, |             |             |             |             |   |
|-----------------------------------|--------------|-------------|-------------|-------------|-------------|---|
|                                   | 2014         | 2013        | 2012        | 2011        | 2010        |   |
| Commercial and industrial         | \$1,270,259  | \$1,041,576 | \$962,884   | \$763,202   | \$593,938   |   |
| Real Estate:                      |              |             |             |             |             |   |
| Commercial                        | 770,529      | 779,319     | 819,709     | 811,570     | 776,268     |   |
| Construction and land development | 144,773      | 117,032     | 160,911     | 140,147     | 190,285     |   |
| Residential                       | 185,252      | 158,527     | 145,558     | 171,034     | 189,484     |   |
| Consumer and other                | 63,103       | 40,859      | 16,977      | 11,121      | 16,376      |   |
| Total Portfolio loans             | \$2,433,916  | \$2,137,313 | \$2,106,039 | \$1,897,074 | \$1,766,351 |   |
| (in thousands)                    | December 31, |             |             |             |             |   |
|                                   | 2014         | 2013        | 2012        | 2011        | 2010        |   |
| Commercial and industrial         | 52.2         | % 48.7      | % 45.7      | % 40.2      | % 33.6      | % |
| Real Estate:                      |              |             |             |             |             |   |
| Commercial                        | 31.7         | % 36.5      | % 38.9      | % 42.8      | % 43.9      | % |
| Construction and land development | 5.9          | % 5.5       | % 7.6       | % 7.4       | % 10.8      | % |
| Residential                       | 7.6          | % 7.4       | % 6.9       | % 9.0       | % 10.7      | % |
| Consumer and other                | 2.6          | % 1.9       | % 0.9       | % 0.6       | % 1.0       | % |
| Total Portfolio loans             | 100.0        | % 100.0     | % 100.0     | % 100.0     | % 100.0     | % |



Commercial and industrial loans are made based on the borrower's ability to generate cash flows for repayment from income sources, general credit strength, experience, and character, even though such loans may also be secured by real estate or other assets. The credit risk related to commercial loans is largely influenced by general economic conditions and the resulting impact on a borrower's operations.

Real estate loans are also based on the borrower's character, but more emphasis is placed on the estimated collateral values.

At December 31, 2014, \$323.2 million, or 42%, of the commercial real estate loans were owner-occupied by commercial and industrial businesses where the primary source of repayment is dependent on sources other than the underlying collateral. Multifamily properties and other commercial properties on which income from the property is the primary source of repayment represent the balance of this category. The majority of this category of loans is secured by commercial and multi-family properties located within our St. Louis and Kansas City markets. These loans are underwritten based on the cash flow coverage of the property, the Company's loan to value guidelines, and generally require either the limited or full guaranty of principal sponsors of the credit.

Real estate construction loans, relating to residential and commercial properties, represent financing secured by raw ground or real estate under development for eventual sale. \$36.0 million of these loans include the use of interest reserves and follow standard underwriting guidelines. Construction projects are monitored by the officer and a centralized independent loan disbursement function is employed.

Residential real estate loans include residential mortgages, which are loans that, due to size or other attributes, do not qualify for conventional home mortgages that the Company sells into the secondary market, second mortgages and home equity lines. Residential mortgage loans are usually limited to a maximum of 80% of collateral value.

Consumer and other loans mainly represent loans to nondepository financial institutions and loans to purchase or carry securities. Credit risk is managed by thoroughly reviewing the creditworthiness of the borrowers prior to origination.

The following table illustrates loan growth from selected specialized market segments at December 31, 2014 and 2013:

| (in thousands)                   | December 31, |           | Change   | % Change |   |
|----------------------------------|--------------|-----------|----------|----------|---|
|                                  | 2014         | 2013      |          |          |   |
| Enterprise value lending         | \$202,468    | \$147,174 | \$55,294 | 37.6     | % |
| Life insurance premium financing | 220,909      | 152,632   | 68,277   | 44.7     | % |

These specialized market segments are primarily C&I loans and have contributed significantly to the Company's 2014 loan growth. These loans are sourced through relationships developed with estate planning and private equity funds, and are not bound geographically by our traditional three markets. These specialized market segments offer opportunities to expand and diversify our overall geographic concentration by entering into new markets, but such expansion does present additional risks as they are outside our primary 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 experienced 14% loan growth during 2014 and expects to achieve a 10% or above total portfolio loan growth rate for 2015.



Following is a further breakdown of our loan categories at December 31, 2014 and 2013:

|                                    | % of portfolio<br>2014 |   |             | 2013               |   |             |   |
|------------------------------------|------------------------|---|-------------|--------------------|---|-------------|---|
|                                    | Portfolio<br>Loans     | Purchase<br>Credit<br>Impaired<br>Loans | Total Loans | Portfolio<br>Loans | Purchase<br>Credit<br>Impaired<br>Loans | Total Loans |   |
| <b>Real Estate:</b>                |                        |   |             |                    |   |             |   |
| Construction & Land<br>Development | 6                      | % 8                                     | % 6         | % 5                | % 10                                    | % 6         | % |
| <b>Commercial Owner Occupied</b>   |                        |   |             |                    |   |             |   |
| Commercial & Industrial            | 13                     | % 16                                    | % 13        | % 15               | % 17                                    | % 15        | % |
| Other                              | 1                      | % 6                                     | % 2         | % 1                | % 6                                     | % 1         | % |
| Total                              | 14                     | % 22                                    | % 15        | % 16               | % 23                                    | % 16        | % |
| <b>Commercial Investor Owned</b>   |                        |   |             |                    |   |             |   |
| Retail                             | 5                      | % 23                                    | % 6         | % 6                | % 19                                    | % 7         | % |
| Commercial Office                  | 5                      | % 10                                    | % 5         | % 7                | % 6                                     | % 7         | % |
| Multi-Family Housing               | 3                      | % 1                                     | % 2         | % 3                | % 1                                     | % 2         | % |
| Industrial/ Warehouse              | 3                      | % 6                                     | % 3         | % 3                | % 7                                     | % 3         | % |
| Other                              | 1                      | % 1                                     | % 1         | % 2                | % 1                                     | % 2         | % |
| Total                              | 17                     | % 41                                    | % 17        | % 21               | % 34                                    | % 21        | % |
| <b>Residential:</b>                |                        |   |             |                    |   |             |   |
| Owner Occupied                     | 6                      | % 22                                    | % 6         | % 5                | % 18                                    | % 6         | % |
| Investor Owned                     | 2                      | % 3                                     | % 2         | % 2                | % 7                                     | % 3         | % |
| Total                              | 8                      | % 25                                    | % 8         | % 7                | % 25                                    | % 9         | % |
| Total Real Estate                  | 45                     | % 96                                    | % 46        | % 49               | % 92                                    | % 52        | % |
| <b>Non Real Estate</b>             |                        |   |             |                    |   |             |   |
| Commercial & Industrial            | 52                     | % 4                                     | % 50        | % 49               | % 7                                     | % 46        | % |
| Consumer & Other                   | 3                      | % —                                     | % 4         | % 2                | % 1                                     | % 2         | % |
| Total Non Real Estate              | 55                     | % 4                                     | % 54        | % 51               | % 8                                     | % 48        | % |
| Total                              | 100                    | % 100                                   | % 100       | % 100              | % 100                                   | % 100       | % |

The following descriptions focus on the Portfolio loans and exclude PCI loans.

The Construction and Land Development category represents \$144.8 million, or 6%, of the total loan portfolio. Within that category, there was \$8.2 million of loans secured by raw ground, \$86.6 million of commercial construction, and \$50 million of residential construction.

The Commercial construction component of the portfolio consisted of approximately 38 loan relationships with an average outstanding loan balance of \$1.7 million. The largest loans include a \$7.8 million line of credit secured by the construction of a retail building and a \$7.5 million line of credit secured by commercially zoned land both located in St. Louis.

The Residential construction component of the portfolio consisted of single family housing development properties primarily in our St. Louis and Kansas City markets. There were approximately 48 loan relationships in this category with an average outstanding loan balance of \$0.5 million. The largest loans include a \$2.5 million loan secured by

improved residential lots in the Kansas City market and a \$1.9 million loan secured by a single family home under construction in the Arizona market.

The largest segments of the non-owner occupied components of the commercial real estate portfolio are retail and commercial office permanent loans.

At December 31, 2014, the Company had \$121.8 million of non-owner occupied permanent loans secured by retail properties. There were approximately 39 loan relationships in this category with an average outstanding loan balance of \$2.0 million. The largest loans outstanding at year-end were a \$8.2 million loan and a \$6.7 million loan both secured by hotels in Phoenix and a \$6.6 million loan secured by a shopping center in Kansas City.

At December 31, 2014, the Company had \$125.4 million of non-owner occupied permanent loans secured by commercial office properties. There were approximately 50 loan relationships with an average outstanding loan balance of \$1.8 million. The largest loans outstanding at year end were an \$9.2 million loan secured by a multi-tenant office building in Kansas City, an \$8.2 million loan secured by a single tenant office building in Kansas City and a \$7.3 million loan secured by a medical office building in the St. Louis region.

Factors that are critical to managing overall credit quality are sound loan underwriting and administration, systematic monitoring of existing loans and commitments, early identification of potential problems, an adequate allowance for loan losses, and sound non-accrual and charge-off policies.

Significant loan concentrations are considered to exist for a financial institution when there are amounts loaned to numerous borrowers engaged in similar activities that would cause them to be similarly impacted by economic or other conditions. At December 31, 2014, no significant concentrations exceeding 10% of total loans existed in the Company's loan portfolio, except as described above.

Loans at December 31, 2014 mature or reprice as follows:

| (in thousands)                    | Loans Maturing or Repricing |                              |                  | Total        | Percent of Total Loans |   |
|-----------------------------------|-----------------------------|------------------------------|------------------|--------------|------------------------|---|
|                                   | In One Year or Less         | After One Through Five Years | After Five Years |              |                        |   |
| Fixed Rate Loans (1) (2)          |                             |                              |                  |              |                        |   |
| Commercial and industrial         | \$ 166,796                  | \$ 192,414                   | \$ 13,183        | \$ 372,393   | 15                     | % |
| Real estate:                      |                             |                              |                  |              |                        |   |
| Commercial                        | 122,720                     | 373,978                      | 14,906           | 511,604      | 20                     | % |
| Construction and land development | 50,570                      | 28,409                       | 1,407            | 80,386       | 3                      | % |
| Residential                       | 45,059                      | 57,813                       | 7,273            | 110,145      | 4                      | % |
| Consumer and other                | 11,213                      | 23,727                       | 2,000            | 36,940       | 2                      | % |
| Purchase credit impaired loans    | 45,495                      | 29,761                       | 745              | 76,001       | 3                      | % |
| Total                             | \$ 441,853                  | \$ 706,102                   | \$ 39,514        | \$ 1,187,469 | 47                     | % |
| Variable Rate Loans (1) (2)       |                             |                              |                  |              |                        |   |
| Commercial and industrial         | \$ 883,392                  | \$ 12,674                    | \$ 1,800         | \$ 897,866   | 35                     | % |
| Real estate:                      |                             |                              |                  |              |                        |   |
| Commercial                        | 179,524                     | 75,574                       | 3,827            | 258,925      | 10                     | % |
| Construction and land development | 58,556                      | 3,145                        | 2,686            | 64,387       | 3                      | % |
| Residential                       | 34,685                      | 38,743                       | 1,679            | 75,107       | 3                      | % |
| Consumer and other                | 14,193                      | 11,970                       | —                | 26,163       | 1                      | % |
| Purchase credit impaired loans    | 13,773                      | 9,204                        | 125              | 23,102       | 1                      | % |
| Total                             | \$ 1,184,123                | \$ 151,310                   | \$ 10,117        | \$ 1,345,550 | 53                     | % |
| Loans (1) (2)                     |                             |                              |                  |              |                        |   |
| Commercial and industrial         | \$ 1,050,188                | \$ 205,088                   | \$ 14,983        | \$ 1,270,259 | 50                     | % |
| Real estate:                      |                             |                              |                  |              |                        |   |
| Commercial                        | 302,244                     | 449,552                      | 18,733           | 770,529      | 30                     | % |
| Construction and land development | 109,126                     | 31,554                       | 4,093            | 144,773      | 6                      | % |
| Residential                       | 79,744                      | 96,556                       | 8,952            | 185,252      | 7                      | % |
| Consumer and other                | 25,406                      | 35,697                       | 2,000            | 63,103       | 3                      | % |
| Purchase credit impaired loans    | 59,268                      | 38,965                       | 870              | 99,103       | 4                      | % |
| Total                             | \$ 1,625,976                | \$ 857,412                   | \$ 49,631        | \$ 2,533,019 | 100                    | % |

(1) Loan balances are net of unearned loan and costs.

(2) Not adjusted for impact of interest rate swap agreements.

Fixed rate loans comprise approximately 47% of the loan portfolio at December 31, 2014. Variable rate loans are based on the prime rate or the London Interbank Offered Rate (“LIBOR”). The Bank’s “prime rate” has been 4.00% since late 2008 when the Federal Reserve lowered the targeted Fed Funds rate to 0.25%. Some of the variable rate loans also use the “Wall Street Journal Prime Rate” which has been 3.25% since late 2008. Most loan originations have one to three year maturities. Management monitors this mix as part of its interest rate risk management. See Interest Rate Risk section.

Of the \$302.2 million of commercial real estate loans maturing in one year or less, \$157 million, or 52%, represents loans secured by non-owner occupied commercial properties.



## 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)   | At December 31, |             |             |             |             |   |
|--|-----------------|-------------|-------------|-------------|-------------|---|
|  | 2014            | 2013        | 2012        | 2011        | 2010        |   |
| Allowance at beginning of period, for portfolio loans                | \$27,289        | \$34,330    | \$37,989    | \$42,759    | \$42,995    |   |
| Release of allowance related to loan participations sold             | —               | —           | —           | —           | —           |   |
| Loans charged off:   |                 |             |             |             |             |   |
| Commercial and industrial  | (3,738 )        | (3,404 )    | (3,233 )    | (5,488 )    | (3,865 )    |   |
| Real estate:   |                 |             |             |             |             |   |
| Commercial   | (700 )          | (4,991 )    | (6,054 )    | (2,429 )    | (15,482 )   |   |
| Construction and Land Development                                    | (905 )          | (896 )      | (4,384 )    | (10,627 )   | (12,148 )   |   |
| Residential  | (48 )           | (1,053 )    | (1,605 )    | (1,613 )    | (4,391 )    |   |
| Consumer and other   | (165 )          | (34 )       | —           | (5 )        | (274 )      |   |
| Total loans charged off  | (5,556 )        | (10,378 )   | (15,276 )   | (20,162 )   | (36,160 )   |   |
| Recoveries of loans previously charged off:                          |                 |             |             |             |             |   |
| Commercial and industrial  | 1,768           | 1,776       | 578         | 583         | 157         |   |
| Real estate:   |                 |             |             |             |             |   |
| Commercial   | 1,101           | 776         | 134         | 729         | 1,001       |   |
| Construction and Land Development                                    | 806             | 488         | 695         | 415         | 314         |   |
| Residential  | 334             | 939         | 1,451       | 303         | 536         |   |
| Consumer and other   | 34              | —           | 2           | 62          | 181         |   |
| Total recoveries of loans  | 4,043           | 3,979       | 2,860       | 2,092       | 2,189       |   |
| Net loan chargeoffs  | (1,513 )        | (6,399 )    | (12,416 )   | (18,070 )   | (33,971 )   |   |
| Provision (benefit) for loan losses                                  | 4,409           | (642 )      | 8,757       | 13,300      | 33,735      |   |
| Allowance at end of period, for portfolio loans                      | \$30,185        | \$27,289    | \$34,330    | \$37,989    | \$42,759    |   |
| Allowance at beginning of period, for purchase credit impaired loans | \$15,438        | \$11,547    | \$1,635     | \$—         | \$—         |   |
| Loans charged off  | (341 )          | (522 )      | (3,823 )    | (1,168 )    | —           |   |
| Recoveries of loans  | —               | 114         | 27          | —           | —           |   |
| Other  | (770 )          | (675 )      | (325 )      | —           | —           |   |
| Net loan chargeoffs  | (1,111 )        | (1,083 )    | (4,121 )    | (1,168 )    | —           |   |
| Provision for loan losses  | 1,083           | 4,974       | 14,033      | 2,803       | —           |   |
| Allowance at end of period, for purchase credit impaired loans       | \$15,410        | \$15,438    | \$11,547    | \$1,635     | \$—         |   |
| Total Allowance at end of period                                     | \$45,595        | \$42,727    | \$45,877    | \$39,624    | \$42,759    |   |
| Excludes purchase credit impaired loans                              |                 |             |             |             |             |   |
| Average loans  | \$2,255,180     | \$2,097,920 | \$1,953,427 | \$1,819,536 | \$1,782,023 |   |
| Total portfolio loans  | 2,433,916       | 2,137,313   | 2,106,039   | 1,897,074   | 1,766,351   |   |
| Net chargeoffs to average loans                                      | 0.07            | % 0.31      | % 0.64      | % 0.99      | % 1.91      | % |
| Allowance for loan losses to loans                                   | 1.24            | 1.28        | 1.63        | 2.00        | 2.42        |   |



The following table is a summary of the allocation of the allowance for loan losses on Portfolio loans for the five years ended December 31, 2014:

| (in thousands)                    | December 31,<br>2014 |   | 2013      |   | 2012      |   | 2011      |   | 2010      |   |
|-----------------------------------|----------------------|---|-----------|---|-----------|---|-----------|---|-----------|---|
|                                   | Allowance            | Percent<br>by<br>Category<br>to Total<br>Portfolio<br>Loans | Allowance | Percent<br>by<br>Category<br>to Total<br>Portfolio<br>Loans | Allowance | Percent<br>by<br>Category<br>to Total<br>Portfolio<br>Loans | Allowance | Percent<br>by<br>Category<br>to Total<br>Portfolio<br>Loans | Allowance | Percent<br>by<br>Category<br>to Total<br>Portfolio<br>Loans |
| Commercial and industrial         | \$17,004             | 52.2 %  | \$12,246  | 48.7 %  | \$10,064  | 45.7 %  | \$11,945  | 40.2 %  | \$12,727  | 33.6 %  |
| Real estate:                      |                      |   |           |   |           |   |           |   |           |   |
| Commercial                        | 8,223                | 31.7 %  | 10,696    | 36.5 %  | 14,595    | 38.9 %  | 13,048    | 42.8 %  | 10,689    | 43.9 %  |
| Construction and land development | 1,720                | 5.9 %   | 2,136     | 5.5 %   | 5,239     | 7.7 %   | 5,847     | 7.4 %   | 8,407     | 10.8 %  |
| Residential                       | 2,830                | 7.6 %   | 2,019     | 7.4 %   | 2,026     | 6.9 %   | 3,931     | 9.0 %   | 5,485     | 10.7 %  |
| Consumer and other                | 408                  | 2.6 %   | 192       | 1.9 %   | 31        | 0.8 %   | 14        | 0.6 %   | 93        | 1.0 %   |
| Unallocated                       | —                    |   | —         |   | 2,375     |   | 3,204     |   | 5,358     |   |
| Total allowance                   | \$30,185             | 100.0 %   | \$27,289  | 100.0 %   | \$34,330  | 100.0 %   | \$37,989  | 100.0 %   | \$42,759  | 100.0 %   |

The provision for loan losses on portfolio loans for the years ended December 31, 2014 was \$4.4 million, compared to a \$0.6 million benefit and an \$8.8 million expense for the comparable 2013 and 2012 periods, respectively. The provision for loan losses for the year ended December 31, 2014 was primarily to provide for charge-offs incurred as well as loan growth in the portfolio, including slightly elevated levels of nonperforming loans during 2014. The benefit in loan provision for the year period ended December 31, 2013 was primarily due to significant improvements in credit quality during the prior year including improvement in loan risk ratings and loss migration results, as well as lower levels of classified loans.

For PCI loans, the Company remeasures contractual and expected cash flows periodically. When the re-measurement 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 re-measurement process, prior recorded impairment is reversed before the yield is increased prospectively. The provision for loan losses on PCI loans for the year ended December 31, 2014 was \$1.1 million compared to \$5.0 million and \$14.0 million for the comparable 2013 and 2012 periods, respectively.

The allowance for loan losses on portfolio loans was 1.24% of total loans at December 31, 2014, compared to 1.28% and 1.63% at December 31, 2013 and December 31, 2012, respectively. Management believes the allowance for loan losses is adequate to absorb inherent losses in the loan portfolio. The slight reduction in the ratio of allowance for loan losses to total loans over the prior year period is due to continued strong credit performance, as well as continued improvement in our loss migration results.

#### Nonperforming assets

Nonperforming loans are defined as loans on non-accrual status, generally loans 90 days or more past due but still accruing, and restructured loans that are still accruing interest or in a non-accrual status. Restructured loans involve the granting of a concession to a borrower experiencing financial difficulty involving the modification of terms of the



loan, such as changes in payment schedule or interest rate. Nonperforming assets include nonperforming loans plus foreclosed real estate.

Nonperforming loans exclude credit-impaired loans acquired in FDIC-assisted transactions. These PCI loans are accounted for on a pool basis, and the pools are considered to be performing. See Item 8, Note 7 - Purchase Credit Impaired Loans for more information on these loans.

The Company's nonperforming loans meet the definition of "impaired loans" in accordance with U.S. generally accepted accounting principles ("U.S. GAAP"). As of December 31, 2014, 2013, and 2012, the Company had 18, 20, and 40 impaired loan relationships, respectively.

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

| (in thousands)   | December 31, |             |             |             |             |   |
|--|--------------|-------------|-------------|-------------|-------------|---|
|  | 2014         | 2013        | 2012        | 2011        | 2010        |   |
| Non-accrual loans  | \$20,892     | \$20,163    | \$37,287    | \$30,885    | \$38,477    |   |
| Loans past due 90 days or more and still accruing interest   | —            | —           | —           | 755         | —           |   |
| Restructured loans   | 1,352        | 677         | 1,440       | 9,982       | 7,880       |   |
| Total nonperforming loans                                    | 22,244       | 20,840      | 38,727      | 41,622      | 46,357      |   |
| Foreclosed property (1)                                      | 1,896        | 7,576       | 9,327       | 17,217      | 25,373      |   |
| Other bank owned assets                                      | —            | —           | —           | —           | 850         |   |
| Total nonperforming assets (1)                               | \$24,140     | \$28,416    | \$48,054    | \$58,839    | \$72,580    |   |
| Excludes assets covered under FDIC loss share (1)            |              |             |             |             |             |   |
| Total assets   | \$3,277,003  | \$3,170,197 | \$3,325,786 | \$3,377,779 | \$2,800,199 |   |
| Total portfolio loans  | 2,433,916    | 2,137,313   | 2,106,039   | 1,897,074   | 1,766,351   |   |
| Total loans plus foreclosed property                         | 2,435,812    | 2,144,889   | 2,115,366   | 1,914,291   | 1,792,574   |   |
| Nonperforming loans to total loans                           | 0.91         | % 0.98      | % 1.84      | % 2.19      | % 2.62      | % |
| Nonperforming assets to total loans plus foreclosed property | 0.99         | 1.32        | 2.27        | 3.07        | 4.05        |   |
| Nonperforming assets to total assets                         | 0.74         | 0.90        | 1.44        | 1.74        | 2.59        |   |
| Allowance for portfolio loans to nonperforming loans         | 136          | % 131       | % 89        | % 91        | % 92        | % |

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

#### Nonperforming loans

Nonperforming loans exclude PCI loans that are accounted for on a pool basis, as the pools are considered to be performing. See Item 8, Note 7 – Purchase Credit Impaired Loans for more information on these loans.

Nonperforming loans at December 31, 2014 and 2013 based on Call Report codes were as follows:

| (in thousands)                    | 2014     |     | 2013       |     |   |
|-----------------------------------|----------|-----|------------|-----|---|
|                                   |          |     |            |     |   |
| Construction and Land Development | \$6,866  | 31  | % \$9,484  | 45  | % |
| Commercial Real Estate            | 6,298    | 28  | % 7,417    | 36  | % |
| Residential Real Estate           | 3,082    | 14  | % 559      | 3   | % |
| Commercial & Industrial           | 5,998    | 27  | % 3,380    | 16  | % |
| Consumer & Other                  | —        | —   | % —        | —   | % |
| Total                             | \$22,244 | 100 | % \$20,840 | 100 | % |



The following table summarizes the changes in nonperforming loans for 2014 and 2013.

| (in thousands)                          | December 31, |           |
|---|--------------|-----------|
|   | 2014         | 2013      |
| Nonperforming loans beginning of period | \$20,840     | \$38,727  |
| Additions to nonaccrual loans           | 24,634       | 22,165    |
| Additions to restructured loans         | 1,522        | 677       |
| Chargeoffs                              | (5,363       | ) (10,378 |
| Other principal reductions              | (11,289      | ) (14,475 |
| Moved to Other real estate              | (5,332       | ) (7,762  |
| Moved to performing                     | (2,768       | ) (8,114  |
| Nonperforming loans end of period       | \$22,244     | \$20,840  |

At December 31, 2014, the nonperforming loans were comprised of approximately 18 relationships with the largest being a \$4.5 million Commercial real estate loan. Five relationships comprise 68% of the nonperforming loans. Approximately 76% were located in the St. Louis market, 24% of the nonperforming loans were located in the Kansas City market, and none were located in the Arizona market. At December 31, 2014, there were two performing restructured loans that were excluded from nonperforming loans in the amount of \$2.1 million. Nonperforming loans represented 0.91% of Portfolio loans at December 31, 2014, versus 0.98% at December 31, 2013.

At December 31, 2013, the nonperforming loans were comprised of approximately 20 relationships with the largest being a \$3.2 million Commercial and Industrial loan. Five relationships comprise 61% of the nonperforming loans. Approximately 50% were located in the St. Louis market, 45% of the nonperforming loans were located in the Kansas City market, and 5% were located in the Arizona market. At December 31, 2013, there was one performing restructured loan that was excluded from nonperforming loans in the amount of \$0.6 million.

At December 31, 2012, the nonperforming loans were comprised of approximately 40 relationships with the largest being a \$4.7 million Commercial real estate loan. Five relationships comprise 51% of the nonperforming loans. Approximately 39% were located in the St. Louis market, 36% of the nonperforming loans were located in the Kansas City market, and 25% were located in the Arizona market.

At December 31, 2011, the nonperforming loans represented 41 relationships. The largest of these was a \$4.5 million Commercial real estate loan. Five relationships comprise 44% of the nonperforming loans. Approximately 52% of the nonperforming loans were in the St. Louis market, 47% were in the Kansas City market and 1% in the Phoenix market.

At December 31, 2010, the nonperforming loans represented 43 relationships. The largest of these was a \$4.1 million commercial real estate loan. Five relationships comprise 45% of the nonperforming loans. Approximately 57% of the nonperforming loans were in the St. Louis market and 43% were in the Kansas City market.

#### Potential problem loans

Potential problem loans, which are not included in nonperforming loans, amounted to approximately \$53.8 million, or 2.20% of total Portfolio loans outstanding at December 31, 2014, compared to \$55.4 million, or 2.59% of total Portfolio loans outstanding at December 31, 2013. Potential problem loans represent those loans where payment of principal and interest is up-to-date and the loans are therefore, fully performing, but where some doubts exist as to the borrower's ability to continue to comply with present repayment terms. Potential problem loans include companies that are characterized by significant losses and sustained downward trends in financial performance have been identified.

Other real estate

Other real estate at December 31, 2014, was \$7.8 million, compared to \$23.3 million at December 31, 2013. Approximately 76% of total Other real estate, or \$5.9 million, is covered by FDIC shared-loss agreements.

41

---

At December 31, 2014, Other real estate was comprised of 3% residential lots, 25% completed homes, and 72% commercial real estate. Of the total Other real estate, 76%, or 32 properties, are located in the Kansas City region, 18%, or 4 properties, are located in the St. Louis region and 6%, or 2 properties, are located in the Arizona region. All Arizona Other real estate properties and 30 properties, or \$5.0 million, of the Kansas City Other real estate are covered under FDIC loss share. None of the St. Louis region properties are covered under FDIC loss share agreements.

The following table summarizes the changes in Other real estate for 2014 and 2013.

| (in thousands)  | December 31, |          |
|---|--------------|----------|
|   | 2014         | 2013     |
| Other real estate beginning of period                           | \$23,252     | \$26,500 |
| Additions and expenses capitalized to prepare property for sale | 9,869        | 22,623   |
| Writedowns in value   | (2,778)      | (3,496)  |
| Sales   | (22,503)     | (22,375) |
| Other real estate end of period                                 | \$7,840      | \$23,252 |

The writedowns in fair value were recorded in Loan legal and other real estate expense based on current market activity shown in the appraisals. In addition, for the year ended December 31, 2014, the Company realized a net gain of \$1.5 million on the sale of other real estate and recorded these gains as part of Noninterest income.

#### Investments

At December 31, 2014, our portfolio of Securities was \$446 million or 14% of total assets. This portfolio is primarily comprised of agency mortgage-backed securities and obligations of U.S. Government-sponsored enterprises. The portfolio is comprised of both available for sale and held to maturity securities.

Our Other investments, at cost, primarily consist of the FHLB capital stock, common stock investments related to our trust preferred securities and other private equity investments. At December 31, 2014, of the \$9.9 million in FHLB capital stock, \$4.1 million is required for FHLB membership and \$5.8 million is required to support our outstanding advances. Historically, it has been the FHLB's practice to automatically repurchase activity-based stock that became excess because of a member's reduction in advances. The FHLB has the discretion, but is not required, to repurchase any shares that a member is not required to hold.

The table below sets forth the carrying value of investment securities held by the Company at the dates indicated:

| (in thousands)                                       | December 31, |       | 2013        |       | 2012        |       |   |
|--|--------------|-------|-------------|-------|-------------|-------|---|
|  | Amount       | %     | Amount      | %     | Amount      | %     |   |
| Obligations of U.S. Government sponsored enterprises | \$91,827     | 19.8  | % \$93,530  | 20.9  | % \$152,368 | 23.3  | % |
| Obligations of states and political subdivisions     | 49,457       | 10.7  | % 48,943    | 10.9  | % 53,003    | 8.1   | % |
| Agency mortgage-backed securities                    | 304,847      | 65.9  | % 292,114   | 65.4  | % 434,841   | 66.4  | % |
| FHLB capital stock                                   | 9,924        | 2.1   | % 6,711     | 1.5   | % 8,885     | 1.4   | % |
| Other investments                                    | 7,113        | 1.5   | % 5,894     | 1.3   | % 5,409     | 0.8   | % |
| Total  | \$463,168    | 100.0 | % \$447,192 | 100.0 | % \$654,506 | 100.0 | % |

The Company had no securities classified as trading at December 31, 2014, 2013, or 2012.



The following table summarizes expected maturity and tax equivalent yield information on the investment portfolio at December 31, 2014:

| (in thousands)                                       | Within 1 year |       | 1 to 5 years |       | 5 to 10 years |       | Over 10 years |       | No Stated Maturity |       | Total     |       |
|--|---------------|-------|--------------|-------|---------------|-------|---------------|-------|--------------------|-------|-----------|-------|
|  | Amount        | Yield | Amount       | Yield | Amount        | Yield | Amount        | Yield | Amount             | Yield | Amount    | Yield |
| Obligations of U.S. Government-sponsored enterprises | —             | — %   | 91,827       | 1.17% | —             | — %   | —             | — %   | —                  | — %   | 91,827    | 1.17% |
| Obligations of states and political subdivisions     | 3,875         | 4.14% | 17,724       | 4.19% | 21,927        | 3.98% | 5,931         | 2.17% | —                  | — %   | 49,457    | 3.85% |
| Agency mortgage-backed securities                    | 631           | 1.78% | 157,913      | 2.37% | 115,383       | 2.53% | 30,920        | 2.37% | —                  | — %   | 304,847   | 2.43% |
| FHLB capital stock                                   | —             | — %   | —            | — %   | —             | — %   | —             | — %   | 9,924              | 2.24% | 9,924     | 2.24% |
| Other investments                                    | —             | — %   | —            | — %   | —             | — %   | —             | — %   | 7,113              | 0.71% | 7,113     | 0.71% |
| Total  | \$4,506       | 3.81% | \$267,464    | 2.08% | \$137,310     | 2.76% | \$36,851      | 2.34% | \$17,037           | 1.60% | \$463,168 | 2.30% |

Yields on tax-exempt securities are computed on a taxable equivalent basis using a tax rate of 38.3%. Expected maturities will differ from contractual maturities, as borrowers may have the right to call or repay obligations with or without prepayment penalties.

#### FDIC Loss Share Receivable

At December 31, 2014, the FDIC loss share receivable was \$15.9 million compared to \$34.3 million at December 31, 2013. Our four loss share agreements with the FDIC have provisions by which the FDIC is required to reimburse us for certain loan losses including up to 90 days of accrued but unpaid interest and direct expenses related to the resolution of assets incurring a loss. Generally, the agreements carry terms of five years from date of acquisition for non-single family or commercial assets and ten years from date of acquisition for single family assets. The loss share agreements with the FDIC for the Home National Bank and Legacy bank acquisitions contain 80% loss coverage during the term of the agreements, while the Valley Capital agreement now provides for 95% loss coverage through the remaining term of the agreement covering single family assets. The loss share agreement relative to our FNBO acquisition has three tranches of losses, each with a specified loss coverage percentage. Losses up to \$112.6 million are reimbursed 80% by the FDIC. Losses from \$112.6 million to \$148.9 million will not be reimbursed, while losses in excess of \$148.9 million revert to 80% loss share reimbursement.

Projections of future losses and the timing thereof are inherently uncertain, though we do not expect to move into the 2<sup>nd</sup> tranche of losses in the FNBO agreement in the next twelve months. The Change in FDIC loss share receivable represents the amortization and other changes necessary to adjust the value of our FDIC loss share receivable to the estimated recoveries from the FDIC subject to the contractual limitations of the loss sharing agreements.

#### Loss Share Expiration Summary

The following table presents a summary of the expiration dates of our loss share coverage under our FDIC agreements, along with the Covered Asset balances per bank at December 31, 2014:

| (in thousands) | Expiration Date |               | Covered Assets |       |
|----------------|-----------------|---------------|----------------|-------|
|                | NSF*            | SF**          | NSF*           | SF**  |
| Valley Capital | Expired         | December 2019 | \$—            | \$413 |
| Home National  | July 2015       | July 2020     | 31,150         | 4,393 |



Edgar Filing: ENTERPRISE FINANCIAL SERVICES CORP - Form 10-K

|        |              |              |          |          |
|--------|--------------|--------------|----------|----------|
| Legacy | January 2016 | January 2021 | 7,998    | 8,659    |
| FNBO   | August 2016  | August 2021  | 35,288   | 7,406    |
|        |              |              | \$74,436 | \$20,871 |

\*NSF represents non-single family loans covered under FDIC loss share arrangements.

\*\*SF represents single family loans covered under FDIC loss share arrangements.

43

---

As of December 31, 2014, \$3.7 million of the Company's PCI loans acquired in its FDIC assisted acquisitions were not covered under loss share agreements.

### Deposits

The following table shows the breakdown of the Company's deposits by type for the periods indicated:

| (in thousands)                        | For the year ended December 31, |             |             | % Increase (decrease) |               |
|---------------------------------------|---------------------------------|-------------|-------------|-----------------------|---------------|
|                                       | 2014                            | 2013        | 2012        | 2014 vs. 2013         | 2013 vs. 2012 |
| Demand deposits                       | \$642,930                       | \$653,686   | \$686,805   | (1.65)%               | (4.82)%       |
| Interest-bearing transaction accounts | 508,941                         | 219,802     | 272,753     | 131.55%               | (19.41)%      |
| Money market accounts                 | 755,569                         | 948,884     | 1,036,125   | (20.37)%              | (8.42)%       |
| Savings                               | 78,718                          | 79,666      | 83,458      | (1.19)%               | (4.54)%       |
| Certificates of deposit:              |                                 |             |             |                       |               |
| \$100 and over                        | 377,544                         | 475,544     | 396,896     | (20.61)%              | 19.82%        |
| Other                                 | 127,808                         | 157,371     | \$182,814   | (18.79)%              | (13.92)%      |
| Total deposits                        | \$2,491,510                     | \$2,534,953 | \$2,658,851 | (1.71)%               | (4.66)%       |
| Non-time deposits / total deposits    | 80%                             | 75%         | 78%         |                       |               |

The Bank continued to lower its cost of deposits during 2014. A decrease in deposits from 2014 to 2013 was seen in all areas except Interest-bearing transaction accounts and was due to the Company's overall initiative to lower its cost of funds. The Bank has positioned its pricing strategy to favor adjustable rate transaction accounts over longer term time deposits. The result was to lower the percentage of time deposits and better position the bank for a prolonged low rate cycle.

Brokered certificates of deposits at December 31, 2014 were \$71.3 million, or 3%, of total deposits compared to \$139.5 million, or 6%, at December 31, 2013. Noninterest-bearing demand deposits represented 26% of total deposits at December 31, 2014 and 2013. Maturities of certificates of deposit of \$100,000 or more were as follows as of December 31, 2014:

| (in thousands)                 | Total     |
|--------------------------------|-----------|
| Three months or less           | \$92,295  |
| Over three through six months  | 50,851    |
| Over six through twelve months | 112,480   |
| Over twelve months             | 121,918   |
| Total                          | \$377,544 |

### Shareholders' Equity

Shareholders' Equity totaled \$316 million at December 31, 2014, an increase of \$36.5 million from December 31, 2013. Significant activity during the year ended December 31, 2014:

- Net income of \$27.2 million,
- Other comprehensive income of \$6.1 million from the change in unrealized gain/loss on investment securities,
- The conversion of \$5.0 million of trust preferred securities to common stock,
- Dividends paid on common stock of \$4.2 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, 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.

For the year ended December 31, 2014, net cash used by investing activities was \$212.8 million in 2014 versus net cash provided of \$176.1 million for 2013. The significant decrease in 2014 was due to proceeds from investment sales, as well as an overall increase in loan balances in 2014. Net cash provided by financing activities was \$71.5 million in 2013, versus net cash used of \$111.2 million in 2013. The change in cash provided by financing activities was primarily due to increased proceeds from FHLB advances, as well as an increase in other borrowings in 2014.

Strong capital ratios, credit quality and core earnings are essential to retaining cost-effective access to the wholesale funding markets. Deterioration in any of these factors could have a negative impact on the Company's ability to access these funding sources and, as a result, these factors are monitored on an ongoing basis as part of the liquidity management process. The Bank is subject to regulations and, among other things, may be limited in its ability to pay dividends or transfer funds to the parent company. Accordingly, consolidated cash flows as presented in the consolidated statements of cash flows may not represent cash immediately available for the payment of cash dividends to the Company's shareholders or for other cash needs.

### 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.

In August 2014, the Company's shelf registration statement on Form S-3 registering up to \$50.0 million of common stock, preferred stock, debt securities, and various other securities, including combinations of such securities was declared effective by the Securities and Exchange Commission. The Company's ability to offer securities pursuant to the registration statement depends on market conditions and the Company's continuing eligibility to use the Form S-3 under rules of the Securities and Exchange Commission.

On November 6, 2012, the parent company entered into a \$12.0 million unsecured term loan agreement ("Term Loan") with another bank with the proceeds being used to redeem the Company's preferred stock held by the U.S. Treasury. The loan has a maturity date of November 6, 2015 and will be repaid in quarterly installments of \$300,000, with a

45

---

balloon payment at maturity. As of December 31, 2014 and 2013 the Company had \$5.7 million and \$10.5 million, respectively, outstanding on the Term Loan. The Term Loan pays interest based on LIBOR plus a spread determined by the Company's outstanding balance under the Term Loan. The Term Loan is subject to ongoing compliance with a number of customary affirmative and negative covenants as well as specified financial covenants. The Company believes it was in compliance with all relevant covenants under the Term Loan at December 31, 2014.

Periodically, management of the Bank will provide a dividend to supplement the parent company's liquidity. This included a \$10.0 million dividend in the fourth quarter of 2014 and 2013 and a \$15.0 million dividend during the fourth quarter of 2012. The 2012 dividend was ultimately used to repurchase the Series A Preferred from the U.S. Treasury. Management currently believes the current level of cash at the holding company of approximately \$14.5 million will be sufficient to meet all projected cash needs for at least the next year.

As of December 31, 2014, the Company had \$56.8 million of outstanding subordinated debentures as part of nine 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. On March 14, 2014, the Company converted the remaining \$5.0 million, 9% coupon, trust preferred securities from EFSC Capital Trust VIII to shares of common stock. As a result of this transaction the Company reduced its long-term debt by \$5.0 million and issued 287,852 shares of common stock. On August 15, 2013, the Company converted \$20.0 million, 9% coupon, of these trust preferred securities to common stock at the election of one of the holders. As a result of these transactions, the Company reduced its long-term debt by \$25.0 million and issued an aggregate of 1.5 million shares of common stock. The Company issued 25,060 shares of additional common stock as inducement for the holder's election. The inducement resulted in a \$0.4 million, one-time, non-cash expense recorded in Other noninterest expense during the third quarter of 2013.

Regulations recently finalized by the Federal Reserve Board to implement the Basel III regulatory capital reforms allow our currently outstanding trust preferred securities to retain Tier 1 capital status.

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

#### Bank liquidity

The Bank has a variety of funding sources available to increase financial flexibility. In addition to amounts currently borrowed, at December 31, 2014, the Bank could borrow an additional \$211.3 million from the FHLB of Des Moines under blanket loan pledges and has an additional \$663.5 million available from the Federal Reserve Bank under a pledged loan agreement. The Bank has unsecured federal funds lines with four correspondent banks totaling \$45.0 million. On December 30, 2013, the Company prepaid \$30.0 million of debt with the Federal Home Loan Bank with a weighted average interest rate of 4.09% and a maturity of 3 years and incurred a prepayment penalty of \$2.6 million. On December 23, 2014, the Company prepaid an additional \$50.0 million of debt with the Federal Home Loan Bank with a weighted average interest rate of 3.17%, a maturity of 3 years and incurred a prepayment penalty of \$2.9 million. These transactions are expected to further reduce our cost of interest bearing liabilities in future periods and will help mitigate net interest margin compression.

Investment securities are another important tool to the Bank's liquidity objectives. Of the \$400.1 million of the securities available for sale at December 31, 2014, \$315.8 million was pledged as collateral for deposits of public institutions, treasury, loan notes, and other requirements. The remaining \$84.3 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 \$997.5 million in unused commitments as of December 31, 2014. 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 and Tier 1 capital to risk-weighted assets, and of Tier 1 capital to average assets. To be categorized as "well capitalized", banks must maintain minimum total risk-based (10%), Tier 1 risk-based (6%) and Tier 1 leverage ratios (5%). As of December 31, 2014, and December 31, 2013, 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 December 31, 2014, 2013, and 2012. Refer to Item 8 - Note 16 Regulatory Matters for a summary of our risk-based capital and leverage ratios. Beginning with reporting for the first quarter of 2015, the Company will adopt the Regulatory Capital Framework (Basel III). The Company has begun to implement the necessary processes and procedures to comply with Basel III. Based on the Company's current assessment of the framework and corresponding ratios, we expect to be in compliance with the various rules and remain "well-capitalized" upon implementation.

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

| (in thousands)                                    | For the year ended December 31, |           |           |   |
|---|---------------------------------|-----------|-----------|---|
|   | 2014                            | 2013      | 2012      |   |
| Tier 1 capital to risk weighted assets            | 12.14                           | % 12.52   | % 10.88   | % |
| Total capital to risk weighted assets             | 13.40                           | % 13.78   | % 12.30   | % |
| Tier 1 common equity to risk weighted assets      | 10.15                           | % 10.08   | % 7.70    | % |
| Leverage ratio (Tier 1 capital to average assets) | 10.48                           | % 9.94    | % 8.36    | % |
| Tangible common equity to tangible assets         | 8.69                            | % 7.78    | % 6.02    | % |
| Tier 1 capital                                    | \$335,221                       | \$308,490 | \$268,870 |   |
| Total risk-based capital                          | \$369,868                       | \$339,433 | \$303,951 |   |

The Company believes the tangible common equity and Tier 1 common equity ratios 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.

### Risk Management

Market risk arises from exposure to changes in interest rates and other relevant market rate or price risk. The Company faces market risk in the form of interest rate risk through transactions other than trading activities. Market risk from these activities, in the form of interest rate risk, is measured and managed through a number of methods. The Company uses financial modeling techniques to measure interest rate risk. These techniques measure the sensitivity of future earnings due to changing interest rate environments. Guidelines established by the Bank's Asset/Liability Management Committee and approved by the Bank's Board of Directors are used to monitor exposure of earnings at risk. General interest rate movements are used to develop sensitivity as management feels it has no primary exposure



to a specific point on the yield curve. These limits are based on the Company's exposure to immediate and sustained parallel rate movements up to 400 basis points, either upward or downward.

### Interest Rate Risk

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

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

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

| Rate Shock | Annual % change<br>in net interest income |
|------------|---|
| + 300 bp   | +7.4%                                     |
| + 200 bp   | +4.7%                                     |
| + 100 bp   | +2.0%                                     |
| - 100 bp   | -1.1%                                     |

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 December 31, 2014, the Company had \$23.8 million in notional amount of outstanding interest rate caps, to help manage interest rate risk. Derivative financial instruments are also discussed in Item 8, Note 8 - Derivative Financial Instruments.

### Impact of Inflation and Changing Prices

The impact of inflation on our operations is increased operating costs. Unlike most industrial companies, virtually all the assets and liabilities of a financial institution are monetary in nature. As a result, interest rates generally have a more significant impact on a financial institution's performance than the effect of general levels of inflation. Although interest rates do not necessarily move in the same direction or to the same extent as the prices of goods and services, increases in inflation generally have resulted in increased interest rates.

## Contractual Obligations, Off-Balance Sheet Risk, and Contingent Liabilities

Through the normal course of operations, the Company has entered into certain contractual obligations and other commitments. Such obligations relate to funding of operations through deposits or debt issuances, as well as leases for premises and equipment. As a financial services provider, the Company routinely enters into commitments to extend credit. While contractual obligations represent future cash requirements of the Company, a significant portion of commitments to extend credit may expire without being drawn upon. Such commitments are subject to the same credit policies and approval process accorded to loans made by the Company.

The required contractual obligations and other commitments, excluding any contractual interest(1), at December 31, 2014, were as follows:

| (in thousands)                  | Total    | Less Than<br>1 Year | Over 1 Year<br>Less than<br>3 Years | Over 3 Years<br>Less than<br>5 Years | Over 5 Years |
|---------------------------------|----------|---------------------|-------------------------------------|--------------------------------------|--------------|
| Operating leases                | \$21,719 | \$2,815             | \$5,225                             | \$4,270                              | \$9,409      |
| Certificates of deposit         | 505,352  | 329,794             | 100,050                             | 75,501                               | 7            |
| Subordinated debentures         | 56,807   | —                   | —                                   | —                                    | 56,807       |
| Federal Home Loan Bank advances | 144,000  | 144,000             | —                                   | —                                    | —            |
| Notes payable                   | 5,700    | 5,700               | —                                   | —                                    | —            |
| Commitments to extend credit    | 947,424  | 654,716             | 165,493                             | 76,955                               | 50,260       |
| Commitments - state tax credits | 26,366   | 22,766              | 3,600                               | —                                    | —            |
| Standby letters of credit       | 50,108   | 50,108              | —                                   | —                                    | —            |
| Private equity funds (2)        | 8,343    | —                   | 8,343                               | —                                    | —            |

(1) In the banking industry, interest-bearing obligations are principally utilized to fund interest-earning assets. As such, interest charges on related contractual obligations were excluded from reported amounts as the potential cash outflows would have corresponding cash inflows from interest-earning assets.

(2) Represents the estimated timing of various capital raises for private equity investments.

As of December 31, 2014, we had liabilities associated with uncertain tax positions of \$1.3 million. The table above does not include these liabilities due to the high degree of uncertainty regarding the future cash flows associated with these amounts.

The Company also enters into derivative contracts under which the Company either receives cash from or pays cash to counterparties depending on changes in interest rates. Derivative contracts are carried at fair value on the consolidated balance sheet with the fair value representing the net present value of expected future cash receipts or payments based on market interest rates as of the balance sheet date. The fair value of these contracts changes daily as market interest rates change.

## CRITICAL ACCOUNTING POLICIES

The following accounting policies are considered most critical to the understanding of the Company's financial condition and results of operations. These critical accounting policies require management's most difficult, subjective and complex judgments about matters that are inherently uncertain. Because these estimates and judgments are based on current circumstances, they may change over time or prove to be inaccurate based on actual experiences. In the event that different assumptions or conditions were to prevail, and depending upon the severity of such changes, the possibility of a materially different financial condition and/or results of operations could reasonably be expected. The

impact and any associated risks related to our critical accounting policies on our business operations are discussed throughout “Management's Discussion and Analysis of Financial Condition and Results of Operations,” where such policies affect our reported and expected financial results. For a detailed discussion on the application of these and other accounting policies, see Item 8, Note 1 - Summary of Significant Accounting Policies.

The Company has prepared all of the consolidated financial information in this report in accordance with U.S. GAAP. The Company makes estimates and assumptions that affect the reported amount of assets and liabilities, disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenue and expenses during the reporting period. Such estimates include the valuation of loans, goodwill, intangible assets, and other long-lived assets, along with assumptions used in the calculation of income taxes, among others. These estimates and assumptions are based on management's best estimates and judgment. Management evaluates its estimates and assumptions on an ongoing basis using historical experience and other factors, including the current economic environment, which management believes to be reasonable under the circumstances. We adjust such estimates and assumptions when facts and circumstances dictate. Decreased real estate values, volatile credit markets, and persistent high unemployment have combined to increase the uncertainty inherent in such estimates and assumptions. As future events and their effects cannot be determined with precision, actual results could differ significantly from these estimates. Changes in estimates resulting from continuing changes in the economic environment will be reflected in the financial statement in future periods. There can be no assurances that actual results will not differ from those estimates.

#### Allowance for Loan Losses

The Company maintains an allowance for loan losses (“the allowance”), which is management's estimate of probable, inherent losses in the outstanding loan portfolio. The allowance is based on management's continuous review and evaluation of the loan portfolio. The review and evaluation combines several factors including: consideration of loan loss experience; trends in past due and nonperforming loans; changes in lending policies and procedures; existing business and economic conditions; the fair value of underlying collateral; changes in the nature and volume of the Company's loan portfolio; changes in the lending department of the Company; volume and severity of past due loans; the quality of the loan review system; concentrations of credit and other qualitative and other factors which affect probable credit losses. Because current economic conditions can change and are difficult to predict, the anticipated amount of estimated loan losses, and therefore the adequacy of the allowance, could change significantly.

In determining the allowance and the related provision for loan losses for Portfolio Loans, three principal elements are considered:

- 1) specific allocations based upon probable losses identified during a quarterly review of the loan portfolio,
- 2) allocations based principally on the Company's risk rating formulas, and
- 3) a qualitative adjustment based on other economic, environmental and portfolio factors.

The first element reflects management's estimate of probable losses based upon a systematic review of specific loans considered to be impaired. These estimates are based upon discounted cash flows as estimated and used to assign loss or collateral exposure, if they are collateral dependent for collection.

The second element reflects the application of our loan rating system. Loans are rated and assigned a loss allocation factor for each category that is based on a loss migration analysis using the Company's loss experience over the last 3 years. The higher the rating assigned to a loan, the greater the loss allocation percentage that is applied. This element also incorporates an estimate of the loss emergence period, which is the time between when a credit event occurs and when the charge-off of a loan occurs. The process is an estimate and is, therefore, imprecise. For example, if our estimate of the loss emergence period would have been increased/decreased by one quarter, it would have resulted in a \$1.0 million increase and \$1.2 million decrease, respectively, in our allowance at December 31, 2014.

The qualitative adjustment is based on management's evaluation of conditions that are not directly reflected in the loss migration analysis and/or specific reserve. The evaluation of the inherent loss with respect to these conditions is subject to a higher degree of uncertainty because they may not be identified with specific problem credits. The

conditions evaluated in connection with the qualitative or environmental adjustment include the following:

- changes in lending policies and procedures;
- changes in business and economic conditions;
- changes in the nature and volume of our loan portfolio;

50

---

- changes in our lending department;
- changes in volume and/or severity of past due loans;
- changes in the quality of our loan review system;
- changes in the value of underlying collateral related to loans;
- existence and effect of concentrations of credit within our loan portfolio; and
- other external factors such as asset quality trends (including trends in nonperforming loans expected to result from existing conditions), related allowance metrics of our peers

Executive management reviews these conditions quarterly by portfolio segment based on discussion with our lending staff. Management then assigns a specified number of basis points of allowance to each factor above by portfolio segment. To the extent that any of these conditions is evidenced by a specifically identifiable problem credit or portfolio segment as of the evaluation date, management's estimate of the effect of such conditions may be reflected as a specific allowance, applicable to such credit or portfolio segment.

The allocation of the allowance for loan losses by loan category is a result of the analysis above. The allocation methodology applied by the Company focuses on changes in the size and character of the loan portfolio, changes in levels of impaired and other nonperforming loans, the risk inherent in specific loans, concentrations of loans to specific borrowers or industries, existing economic conditions, and historical losses on each portfolio category.

Management believes that the allowance for loan losses is adequate at December 31, 2014.

#### Loans Acquired Through Transfer

Loans acquired through the completion of a transfer, including loans acquired in a business combination that have evidence of deterioration of credit quality since origination and for which it is probable, at acquisition, that the Company will be unable to collect all contractually required payments receivable. Acquired loans are initially recorded at fair value (as determined by the present value of expected future cash flows) with no valuation allowance. The difference between the undiscounted cash flows expected at acquisition and the investment in the loans, or the "accretable yield," is recognized as interest income on a level-yield method over the life of the loans. Contractually required payments for interest and principal that exceed the undiscounted cash flows expected at acquisition, or the "nonaccretable difference," are not recognized as a yield adjustment or as a loss accrual or a valuation allowance. The Company aggregates individual loans with common risk characteristics into pools of loans. Increases in expected cash flows subsequent to the initial investment are recognized prospectively through adjustment of the yield on the loans over their remaining lives. Decreases in expected cash flows due to an inability to collect contractual cash flows are recognized as impairment through the provision for loan losses account. Any allowance for loan loss on these pools reflect only losses incurred after the acquisition. Any disposals of loans, including sales of loans, payments in full or foreclosures result in the removal of the loan from the loan pool at the carrying amount with differences in actual results reflected in interest income.

Acquired impaired loans are generally considered accruing and performing as the loans accrete income over the estimated life of the loan, in circumstances where cash flows are reasonably estimable by management. Accordingly, acquired impaired loans that could be contractually past due could be considered to be accruing and performing. If the timing and amount of future cash flows is not reasonably estimable, the loans may be classified as nonaccrual loans and the purchase price discount on those loans is not recorded as interest income until the timing and amount of future cash flows can be reasonably estimable.

#### Allowance for Loan Losses on Purchase Credit Impaired Acquired Loans

The Company updates its cash flow projections for purchase credit-impaired loans, including loans acquired from the FDIC, on a periodic basis. Assumptions utilized in this process include projections related to probability of default,

loss severity, prepayment, extensions and recovery lag. Projections related to probability of default and prepayment are calculated utilizing a loan migration analysis. The loan migration analysis is a matrix that specifies the probability of a loan pool transitioning into a particular delinquency or liquidation state given its current performance at the measurement date. Loss severity factors are based upon industry data and historical experience.



Any decreases in expected cash flows after the acquisition date and subsequent measurement periods are recognized by recording an impairment in allowance for loan losses through a provision for loan losses. For loans covered by FDIC loss share, the FDIC loss share receivable is increased to reflect future cash to be received from the FDIC. The amount of the increase is recorded in noninterest income and is determined based on the specific loss share agreement, but is generally 80% of the losses. See Loans Acquired Through Transfer above for further discussion. Any increase in expected future cash flows due to a decrease in expected credit losses will reverse previously recorded impairment, if any, and add to the accretible yield on the loan pool, prospectively. In addition the accretion of the FDIC loss share receivable will decrease prospectively over the remaining life. Increases and decreases to the FDIC loss share receivable are recorded as adjustments to noninterest income.

#### Goodwill and Other Intangible Assets

Our goodwill impairment test is completed in the fourth quarter each year or whenever events or changes in circumstances indicate that the Company may not be able to recover the goodwill, or intangible assets, respective carrying amount. In 2014, we performed a qualitative ("Step 0") assessment to determine if our goodwill was impaired. The qualitative assessment involved the examination of changes that have occurred since our last quantitative ("Step 1") goodwill impairment test took place including macroeconomic conditions, industry and market conditions, overall financial performance, changes in management and other key personnel, changes in our reporting units, and changes in the share price of the Company's common stock. Based on the Step 0 assessment, Management believes it is probable that its goodwill is not impaired.

Goodwill is evaluated for impairment at the reporting unit level. Reporting units are defined as the same level as, or one level below, an operating segment. An operating segment is a component of a business for which separate financial information is available that management regularly evaluates in deciding how to allocate resources and assess performance. At December 31, 2014 and 2013, the Company had \$30.3 million goodwill.

Businesses must identify potential impairments by performing the qualitative assessment noted above or when a formal test is required comparing the fair value of a reporting unit to its carrying amount, including goodwill. Goodwill impairment does not occur as long as it is probable an impairment has not occurred under the Step 0 assessment or the fair value of the unit is greater than its carrying value under the Step 1 assessment. The second step ("Step 2") of the impairment test is only required if the carrying value of the reporting unit is greater than its fair value as determined in Step 1. Step 2 of the test compares the implied fair market value of goodwill to its carrying amount. If the carrying amount of goodwill exceeds its implied fair market value, an impairment loss is recognized. That loss is equal to the carrying amount of goodwill that is in excess of its implied fair market value.

Intangible assets other than goodwill, such as core deposit intangibles, that are determined to have finite lives are amortized over their estimated remaining useful lives. These assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset.

The 2014 annual impairment evaluation of goodwill and intangible balances did not identify any impairment.



#### Deferred Tax Assets and Liabilities

Deferred tax assets and liabilities are recognized for future tax effects of temporary differences, net operating loss carry forwards and tax credits. Deferred tax assets are reduced if necessary, by a deferred tax asset valuation allowance. A valuation allowance is established when in the judgment of management, it is more likely than not that such deferred tax assets will not become realizable. In this case, we would adjust the recorded value of our deferred tax assets, which would result in a direct charge to income tax expense in the period that the determination is made. Likewise, we would reverse the valuation allowance when realization of the deferred tax asset is expected. At December 31, 2014, the Company did not have any valuation allowances for federal or state income taxes.

#### Effects of New Accounting Pronouncements

See Item 8, Note 23 - New Authoritative Accounting Guidance for information on recent accounting pronouncements and their impact, if any, on our consolidated financial statements.

#### Use of Non-GAAP Financial Measures:

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

The Company considers its Core performance measures 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 nonrecurring 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 of other real estate covered under FDIC loss share agreements and expenses directly related to the PCI loans and other assets covered under FDIC loss share agreements. Core performance measures also exclude certain other income and expense items 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 Core net interest margin is an important measure of our financial performance, even though it is a non-GAAP financial measure, because it provides supplemental information by which to evaluate the impact of excess Covered loan accretion on the Company's net interest margin and the Company's operating performance on an ongoing basis, excluding such impact.

The Company believes that the tangible common equity and the Tier 1 common equity ratios provide useful information to investors about the Company's capital strength even though they are considered to be non-GAAP financial measures and are not part of the regulatory capital requirements to which the Company is subject.

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



## Core Performance Measures

| (in thousands)  | For the Years ended |                   |                   |   |
|---|---------------------|-------------------|-------------------|---|
|   | December 31, 2014   | December 31, 2013 | December 31, 2012 |   |
| <b>CORE PERFORMANCE MEASURES</b>                                      |                     |                   |                   |   |
| Net interest income   | \$ 117,368          | \$ 135,152        | \$ 142,297        |   |
| Less: Incremental accretion income                                    | 18,930              | 35,347            | 39,921            |   |
| Core net interest income  | 98,438              | 99,805            | 102,376           |   |
| <br>  |                     |                   |                   |   |
| Total noninterest income  | 16,631              | 9,899             | 9,084             |   |
| Less: Change in FDIC loss share receivable                            | (9,307              | ) (18,173         | ) (14,869         | ) |
| Less: Gain on sale of other real estate covered under FDIC loss share | 445                 | 1,071             | 2,081             |   |
| Less: Gain on sale of branches  | —                   | 1,044             | —                 |   |
| Less: Gain on sale of investment securities                           | —                   | 1,295             | 1,156             |   |
| Less: Closing fee   | 945                 | —                 | —                 |   |
| Core noninterest income   | 24,548              | 24,662            | 20,716            |   |
| <br>  |                     |                   |                   |   |
| Total core revenue  | 122,986             | 124,467           | 123,092           |   |
| <br>  |                     |                   |                   |   |
| Provision (benefit) for portfolio loans                               | 4,409               | (642              | ) 8,757           |   |
| <br>  |                     |                   |                   |   |
| Total noninterest expense   | 87,463              | 90,639            | 85,761            |   |
| Less: FDIC clawback   | 1,201               | 951               | 575               |   |
| Less: Other loss share expenses                                       | 2,953               | 4,565             | 6,634             |   |
| Less: FHLB prepayment penalty   | 2,936               | 2,590             | —                 |   |
| Less: Facilities disposal charge                                      | 1,004               | 797               | —                 |   |
| Core noninterest expense  | 79,369              | 81,736            | 78,552            |   |
| <br>  |                     |                   |                   |   |
| Core income before income tax expense                                 | 39,208              | 43,373            | 35,783            |   |
| <br>  |                     |                   |                   |   |
| Total income tax expense  | 13,871              | 16,976            | 14,534            |   |
| Less: Income tax expense of PCI assets                                | 706                 | 2,569             | 2,699             |   |
| Core income tax expense   | 13,165              | 14,407            | 11,835            |   |
| Core net income   | \$ 26,043           | \$ 28,966         | \$ 23,948         |   |
| <br>  |                     |                   |                   |   |
| Core earnings per share   | \$ 1.29             | \$ 1.47           | \$ 1.24           |   |
| Core efficiency ratio   | 64.53               | % 65.67           | % 63.82           | % |
| Core return on average assets   | 0.82                | % 0.93            | % 0.74            | % |
| Core return on average common equity                                  | 8.63                | % 11.18           | % 9.49            | % |

## Net Interest Margin to Core Net Interest Margin

| (In thousands)                                  | For the Years ended December 31, |             |             |   |
|---|----------------------------------|-------------|-------------|---|
|   | 2014                             | 2013        | 2012        |   |
| Net interest income (fully tax equivalent)      | \$119,002                        | \$137,375   | \$143,795   |   |
| Incremental accretion income                    | (18,930                          | ) (35,347   | ) (39,921   | ) |
| Core net interest income (fully tax equivalent) | \$100,072                        | \$102,028   | \$103,874   |   |
| Average earning assets                          | \$2,921,978                      | \$2,875,765 | \$2,909,532 |   |
| Reported net interest margin                    | 4.07                             | % 4.78      | % 4.94      | % |
| Core net interest margin                        | 3.42                             | % 3.55      | % 3.57      | % |

## Tangible common equity ratio

| (In thousands)                            | For the Years ended December 31, |             |             |   |
|---|----------------------------------|-------------|-------------|---|
|   | 2014                             | 2013        | 2012        |   |
| Total shareholders' equity                | \$316,241                        | \$279,705   | \$235,745   |   |
| Goodwill                                  | (30,334                          | ) (30,334   | ) (30,334   | ) |
| Intangible assets                         | (4,164                           | ) (5,418    | ) (7,406    | ) |
| Tangible common equity                    | \$281,743                        | \$243,953   | \$198,005   |   |
| Total assets                              | \$3,277,003                      | \$3,170,197 | \$3,325,786 |   |
| Goodwill                                  | (30,334                          | ) (30,334   | ) (30,334   | ) |
| Intangible assets                         | (4,164                           | ) (5,418    | ) (7,406    | ) |
| Tangible assets                           | \$3,242,505                      | \$3,134,445 | \$3,288,046 |   |
| Tangible common equity to tangible assets | 8.69                             | % 7.78      | % 6.02      | % |

## Tier 1 common equity ratio

| (In thousands)  | For the Years ended December 31, |           |           |   |
|---|----------------------------------|-----------|-----------|---|
|   | 2014                             | 2013      | 2012      |   |
| Total shareholders' equity  | \$316,241                        | \$279,705 | \$235,745 |   |
| Goodwill  | (30,334                          | ) (30,334 | ) (30,334 | ) |
| Intangible assets   | (4,164                           | ) (5,418  | ) (7,406  | ) |
| Unrealized (gains) losses   | (1,681                           | ) 4,380   | (7,790    | ) |
| Qualifying trust preferred securities   | 55,100                           | 60,100    | 78,600    |   |
| Other   | 59                               | 57        | 55        |   |
| Tier 1 capital  | 335,221                          | 308,490   | 268,870   |   |
| Qualifying trust preferred securities   | (55,100                          | ) (60,100 | ) (78,600 | ) |
| Tier 1 common equity  | \$280,121                        | \$248,390 | \$190,270 |   |
| Total risk weighted assets determined in accordance with prescribed regulatory requirements | 2,760,729                        | 2,463,605 | 2,471,668 |   |
| Tier 1 common equity to risk weighted assets  | 10.15                            | % 10.08   | % 7.70    | % |



ITEM 7A: QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Please refer to “Risk Factors” included in Item 1A and “Risk Management” included in Management's Discussion and Analysis under Item 7.



ITEM 8: FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Enterprise Financial Services Corp and Subsidiaries

|  | Page Number |
|--|-------------|
| Report of Independent Registered Public Accounting Firm  | <u>58</u>   |
| Consolidated Balance Sheets at December 31, 2014 and 2013  | <u>60</u>   |
| Consolidated Statements of Operations for the years ended<br>December 31, 2014, 2013, and 2012           | <u>61</u>   |
| Consolidated Statements of Comprehensive Income for the years ended<br>December 31, 2014, 2013, and 2012 | <u>62</u>   |
| Consolidated Statements of Shareholders' Equity for the years ended<br>December 31, 2014, 2013, and 2012 | <u>63</u>   |
| Consolidated Statements of Cash Flows for the years ended<br>December 31, 2014, 2013, and 2012           | <u>64</u>   |
| Notes to Consolidated Financial Statements   | <u>66</u>   |

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of  
Enterprise Financial Services Corp  
St. Louis, Missouri

We have audited the accompanying consolidated balance sheets of Enterprise Financial Services Corp and subsidiaries (the "Company") as of December 31, 2014 and 2013, and the related consolidated statements of operations, comprehensive income, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2014. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Enterprise Financial Services Corp and subsidiaries as of December 31, 2014 and 2013, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2014, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2014, based on the criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 27, 2015 expressed an unqualified opinion on the Company's internal control over financial reporting.

/s/ Deloitte & Touche LLP

St. Louis, Missouri  
February 27, 2015

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of  
Enterprise Financial Services Corp  
St. Louis, Missouri

We have audited the internal control over financial reporting of Enterprise Financial Services Corp and subsidiaries (the "Company") as of December 31, 2014, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Assessment on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2014, based on the criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements as of and for the year ended December 31, 2014 of the Company and our report dated February 27, 2015 expressed an unqualified opinion on those consolidated financial statements.

/s/ Deloitte & Touche LLP

St. Louis, Missouri  
February 27, 2015

## ENTERPRISE FINANCIAL SERVICES CORP AND SUBSIDIARIES

## Consolidated Balance Sheets

As of December 31, 2014 and 2013

(in thousands, except share and per share data)

|   | December 31, 2014 | December 31, 2013 |
|---|-------------------|-------------------|
| Assets  |                   |                   |
| Cash and due from banks   | \$42,903          | \$19,573          |
| Federal funds sold  | 35                | 76                |
| Interest-bearing deposits (including \$980 and \$990 pledged as collateral)                                   | 57,758            | 190,920           |
| Total cash and cash equivalents   | 100,696           | 210,569           |
| Interest-bearing deposits greater than 90 days  | 5,300             | 5,300             |
| Securities available for sale   | 400,146           | 434,587           |
| Securities held to maturity   | 45,985            | —                 |
| Loans held for sale   | 4,033             | 1,834             |
| Portfolio loans   | 2,433,916         | 2,137,313         |
| Less: Allowance for loan losses   | 30,185            | 27,289            |
| Portfolio loans, net  | 2,403,731         | 2,110,024         |
| Purchase credit impaired loans, net of the allowance for loan losses<br>(\$15,410 and \$15,438, respectively) | 83,693            | 125,100           |
| Total loans, net  | 2,487,424         | 2,235,124         |
| Other real estate not covered under FDIC loss share   | 1,896             | 7,576             |
| Other real estate covered under FDIC loss share   | 5,944             | 15,676            |
| Other investments, at cost  | 17,037            | 12,605            |
| Fixed assets, net   | 14,753            | 18,180            |
| Accrued interest receivable   | 7,956             | 7,303             |
| State tax credits, held for sale, including \$11,689 and \$16,491 carried at fair<br>value, respectively      | 38,309            | 48,457            |
| FDIC loss share receivable  | 15,866            | 34,319            |
| Goodwill  | 30,334            | 30,334            |
| Intangible assets, net  | 4,164             | 5,418             |
| Other assets  | 97,160            | 102,915           |
| Total assets  | \$3,277,003       | \$3,170,197       |
| Liabilities and Shareholders' Equity  |                   |                   |
| Demand deposits   | \$642,930         | \$653,686         |
| Interest-bearing transaction accounts   | 508,941           | 219,802           |
| Money market accounts   | 755,569           | 948,884           |
| Savings   | 78,718            | 79,666            |
| Certificates of deposit:  |                   |                   |
| \$100 and over  | 377,544           | 475,544           |
| Other   | 127,808           | 157,371           |
| Total deposits  | 2,491,510         | 2,534,953         |
| Subordinated debentures   | 56,807            | 62,581            |
| Federal Home Loan Bank advances   | 144,000           | 50,000            |
| Other borrowings  | 234,183           | 203,831           |
| Notes payable   | 5,700             | 10,500            |
| Accrued interest payable  | 843               | 957               |
| Other liabilities   | 27,719            | 27,670            |
| Total liabilities   | 2,960,762         | 2,890,492         |

## Shareholders' equity:

|  |             |             |   |
|--|-------------|-------------|---|
| Preferred stock, \$0.01 par value;<br>5,000,000 shares authorized; 0 shares issued and outstanding                     | —           | —           |   |
| Common stock, \$0.01 par value; 30,000,000 shares authorized; 19,913,519<br>and 19,399,709 shares issued, respectively | 199         | 194         |   |
| Treasury stock, at cost; 76,000 shares   | (1,743      | ) (1,743    | ) |
| Additional paid in capital   | 207,731     | 200,258     |   |
| Retained earnings  | 108,373     | 85,376      |   |
| Accumulated other comprehensive (loss) income  | 1,681       | (4,380      | ) |
| Total shareholders' equity   | 316,241     | 279,705     |   |
| Total liabilities and shareholders' equity   | \$3,277,003 | \$3,170,197 |   |

See accompanying notes to consolidated financial statements.

## ENTERPRISE FINANCIAL SERVICES CORP AND SUBSIDIARIES

## Consolidated Statements of Operations

Years ended December 31, 2014, 2013, and 2012

| (in thousands, except per share data)               | Years ended December 31, |            |            |
|---|--------------------------|------------|------------|
|   | 2014                     | 2013       | 2012       |
| Interest income:                                    |                          |            |            |
| Interest and fees on loans                          | \$121,395                | \$143,181  | \$154,006  |
| Interest on debt securities:                        |                          |            |            |
| Taxable   | 8,711                    | 8,325      | 9,877      |
| Nontaxable  | 1,188                    | 1,209      | 1,009      |
| Interest on interest-bearing deposits               | 187                      | 210        | 257        |
| Dividends on equity securities                      | 273                      | 364        | 315        |
| Total interest income                               | 131,754                  | 153,289    | 165,464    |
| Interest expense:                                   |                          |            |            |
| Interest-bearing transaction accounts               | 653                      | 461        | 721        |
| Money market accounts                               | 2,716                    | 3,080      | 4,679      |
| Savings accounts                                    | 201                      | 225        | 275        |
| Certificates of deposit:                            |                          |            |            |
| \$100 and over                                      | 5,281                    | 5,554      | 7,077      |
| Other   | 1,636                    | 1,822      | 2,654      |
| Subordinated debentures                             | 1,322                    | 3,019      | 4,082      |
| Federal Home Loan Bank advances                     | 1,799                    | 2,938      | 3,054      |
| Notes payable and other borrowings                  | 778                      | 1,038      | 625        |
| Total interest expense                              | 14,386                   | 18,137     | 23,167     |
| Net interest income                                 | 117,368                  | 135,152    | 142,297    |
| Provision for portfolio loan losses                 | 4,409                    | (642)      | ) 8,757    |
| Provision for purchase credit impaired loan losses  | 1,083                    | 4,974      | 14,033     |
| Net interest income after provision for loan losses | 111,876                  | 130,820    | 119,507    |
| Noninterest income:                                 |                          |            |            |
| Wealth management revenue                           | 6,942                    | 7,118      | 7,300      |
| Service charges on deposit accounts                 | 7,181                    | 6,825      | 5,664      |
| Other service charges and fee income                | 2,953                    | 2,717      | 2,504      |
| Gain on sale of branches                            | —                        | 1,044      | —          |
| Gain on sale of other real estate                   | 1,531                    | 3,363      | 2,225      |
| Gain on state tax credits, net                      | 2,252                    | 2,503      | 2,207      |
| Gain on sale of investment securities               | —                        | 1,295      | 1,156      |
| Change in FDIC loss share receivable                | (9,307)                  | ) (18,173) | ) (14,869) |
| Miscellaneous income                                | 5,079                    | 3,207      | 2,897      |
| Total noninterest income                            | 16,631                   | 9,899      | 9,084      |
| Noninterest expense:                                |                          |            |            |
| Employee compensation and benefits                  | 47,232                   | 47,278     | 43,497     |
| Occupancy   | 5,057                    | 5,661      | 5,393      |
| Furniture and equipment                             | 1,470                    | 1,616      | 1,636      |
| Data processing                                     | 4,481                    | 4,137      | 3,454      |
| FDIC and other insurance                            | 2,884                    | 3,244      | 3,491      |
| Loan legal and other real estate expense            | 3,936                    | 4,496      | 6,732      |
| Professional fees                                   | 3,825                    | 4,876      | 5,120      |
| FHLB prepayment penalty                             | 2,936                    | 2,590      | —          |
| Other   | 15,642                   | 16,741     | 16,438     |

Edgar Filing: ENTERPRISE FINANCIAL SERVICES CORP - Form 10-K

|  |          |          |          |
|--|----------|----------|----------|
| Total noninterest expense                                    | 87,463   | 90,639   | 85,761   |
| Income before income tax expense                             | 41,044   | 50,080   | 42,830   |
| Income tax expense   | 13,871   | 16,976   | 14,534   |
| Net income   | \$27,173 | \$33,104 | \$28,296 |
| Net income available to common shareholders                  | \$27,173 | \$33,104 | \$25,101 |
| Earnings per common share                                    |          |          |          |
| Basic  | \$1.38   | \$1.78   | \$1.41   |
| Diluted  | 1.35     | 1.73     | 1.37     |
| See accompanying notes to consolidated financial statements. |          |          |          |

61

---

## ENTERPRISE FINANCIAL SERVICES CORP AND SUBSIDIARIES

## Consolidated Statements of Comprehensive Income

Years ended December 31, 2014, 2013, and 2012

| (in thousands)   | Years ended December 31, |          |          |
|--|--------------------------|----------|----------|
|  | 2014                     | 2013     | 2012     |
| Net income   | \$27,173                 | \$33,104 | \$28,296 |
| Other comprehensive income, net of tax:  |                          |          |          |
| Unrealized gain/(loss) on investment securities arising during the period, net of income tax expense/(benefit) of \$3,762, \$(7,059), and \$3,384, respectively                        | 6,061                    | (11,371) | ) 4,894  |
| Less: reclassification adjustment for realized gains on sale of securities available for sale included in net income, net of income tax expense of \$0, \$496, and \$450, respectively | —                        | (799)    | ) (706)  |
| Total other comprehensive income (loss)  | 6,061                    | (12,170) | ) 4,188  |
| Total comprehensive income   | \$33,234                 | \$20,934 | \$32,484 |

See accompanying notes to consolidated financial statements.



## ENTERPRISE FINANCIAL SERVICES CORP AND SUBSIDIARIES

## Consolidated Statements of Shareholders' Equity

Years ended December 31, 2014, 2013, and 2012

| (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, 2012   | \$33,293        | \$ 178       | \$(1,743)      | \$169,138                  | \$35,097          | \$ 3,602                                      | \$ 239,565                 |
| Net income  | —               | —            | —              | —                          | 28,296            | —   | 28,296                     |
| Other comprehensive income  | —               | —            | —              | —                          | —                 | 4,188   | 4,188                      |
| Cash dividends paid on common shares, \$0.21 per share            | —               | —            | —              | —                          | (3,757 )          | —   | (3,757 )                   |
| Cash dividends paid on preferred stock                            | —               | —            | —              | —                          | (1,711 )          | —   | (1,711 )                   |
| Preferred stock accretion of discount                             | 1,707           | —            | —              | —                          | (1,707 )          | —   | —                          |
| Repurchase of preferred stock                                     | (35,000 )       | —            | —              | —                          | —                 | —   | (35,000 )                  |
| Issuance under equity compensation plans, 238,290 shares, net     | —               | 3            | —              | 1,558                      | —                 | —   | 1,561                      |
| Share-based compensation  | —               | —            | —              | 2,537                      | —                 | —   | 2,537                      |
| Excess tax benefit related to equity compensation plans           | —               | —            | —              | 66                         | —                 | —   | 66                         |
| Balance December 31, 2012   | \$—             | \$ 181       | \$(1,743)      | \$173,299                  | \$56,218          | \$ 7,790                                      | \$ 235,745                 |
| Net income  | —               | —            | —              | —                          | 33,104            | —   | 33,104                     |
| Other comprehensive income  | —               | —            | —              | —                          | —                 | (12,170 )                                     | (12,170 )                  |
| Cash dividends paid on common shares, \$0.21 per share            | —               | —            | —              | —                          | (3,946 )          | —   | (3,946 )                   |
| Repurchase of preferred stock                                     | —               | —            | —              | (1,006 )                   | —                 | —   | (1,006 )                   |
| Issuance under equity compensation plans, 135,087 shares, net     | —               | 1            | —              | 2,264                      | —                 | —   | 2,265                      |
| Trust preferred securities conversion 1,176,470 shares            | —               | 12           | —              | 20,431                     | —                 | —   | 20,443                     |
| Share-based compensation  | —               | —            | —              | 5,048                      | —                 | —   | 5,048                      |
| Excess tax benefit related to equity compensation plans           | —               | —            | —              | 222                        | —                 | —   | 222                        |
| Balance December 31, 2013   | \$—             | \$ 194       | \$(1,743)      | \$200,258                  | \$85,376          | \$ (4,380 )                                   | \$ 279,705                 |
| Net income  | —               | —            | —              | —                          | 27,173            | —   | 27,173                     |
| Change in fair value of available for sale securities, net of tax | —               | —            | —              | —                          | —                 | 6,061   | 6,061                      |
| Cash dividends paid on common shares, \$0.21 per share            | —               | —            | —              | —                          | (4,176 )          | —   | (4,176 )                   |
| Issuance under equity compensation plans, 225,958 shares, net     | —               | 2            | —              | (681 )                     | —                 | —   | (679 )                     |
| Trust preferred securities conversion 287,852 shares              | —               | 3            | —              | 4,999                      | —                 | —   | 5,002                      |

Edgar Filing: ENTERPRISE FINANCIAL SERVICES CORP - Form 10-K

|   |     |        |           |           |           |          |            |
|---|-----|--------|-----------|-----------|-----------|----------|------------|
| Share-based compensation                                | —   | —      | —         | 2,950     | —         | —        | 2,950      |
| Excess tax benefit related to equity compensation plans | —   | —      | —         | 205       | —         | —        | 205        |
| Balance December 31, 2014                               | \$— | \$ 199 | \$(1,743) | \$207,731 | \$108,373 | \$ 1,681 | \$ 316,241 |

See accompanying notes to consolidated financial statements.

63

---

## ENTERPRISE FINANCIAL SERVICES CORP AND SUBSIDIARIES

## Consolidated Statements of Cash Flows

Years ended December 31, 2014, 2013, and 2012

| (in thousands)   | Years ended December 31, |          |           |
|--|--------------------------|----------|-----------|
|  | 2014                     | 2013     | 2012      |
| Cash flows from operating activities:  |                          |          |           |
| Net income   | \$27,173                 | \$33,104 | \$28,296  |
| Adjustments to reconcile net income to net cash provided by operating activities |                          |          |           |
| Depreciation   | 2,238                    | 2,783    | 2,529     |
| Provision for loan losses  | 5,492                    | 4,332    | 22,790    |
| Deferred income taxes  | 4,277                    | (9,943)  | (8,535)   |
| Net amortization of debt securities  | 3,810                    | 5,593    | 7,923     |
| Amortization of intangible assets  | 1,254                    | 1,905    | 1,879     |
| Gain on sale of investment securities  | —                        | (1,295)  | (1,156)   |
| Mortgage loans originated for sale   | (74,135)                 | (78,335) | (99,499)  |
| Proceeds from mortgage loans sold  | 72,529                   | 88,845   | 93,737    |
| Gain on sale of other real estate  | (1,531)                  | (3,363)  | (2,225)   |
| Gain on state tax credits, net   | (2,252)                  | (2,503)  | (2,207)   |
| Excess tax benefit of share-based compensation                                   | (205)                    | (222)    | (66)      |
| Share-based compensation   | 2,950                    | 5,048    | 2,537     |
| Valuation adjustment on other real estate  | 696                      | 1,443    | 2,398     |
| Net accretion of loan discount and indemnification asset                         | (9,879)                  | (16,435) | (24,398)  |
| Gain on sale of branches   | —                        | (1,044)  | —         |
| Changes in:  |                          |          |           |
| Accrued interest receivable  | (653)                    | 1,179    | 695       |
| Accrued interest payable   | (114)                    | (303)    | (480)     |
| Prepaid FDIC insurance   | —                        | 2,607    | 2,933     |
| Other assets   | (205)                    | (12,002) | (6,063)   |
| Other liabilities  | 49                       | 7,914    | 16,285    |
| Net cash provided (used) by operating activities                                 | 31,494                   | 29,308   | 37,373    |
| Cash flows from investing activities:  |                          |          |           |
| Net cash received (paid) from acquisitions and dispositions                      | —                        | (67,564) | 12,544    |
| Net decrease (increase) in loans   | (240,640)                | 36,169   | (107,283) |
| Net cash proceeds received from FDIC loss share receivable                       | 9,605                    | 10,981   | 91,641    |
| Proceeds from the sale of debt securities, available for sale                    | —                        | 159,604  | 110,876   |
| Proceeds from the paydown or maturity of debt, available for sale                | 47,678                   | 82,641   | 122,955   |
| Proceeds from the paydown or maturity of debt, held to maturity                  | 455                      | —        | —         |
| Proceeds from the redemption of other investments                                | 29,045                   | 30,632   | 9,238     |
| Proceeds from the sale of state tax credits held for sale                        | 12,814                   | 16,723   | 10,606    |
| Proceeds from the sale of other real estate                                      | 17,259                   | 19,558   | 53,850    |
| Payments for the purchase/origination of:  |                          |          |           |
| Available for sale debt and equity securities                                    | (53,664)                 | (60,732) | (278,163) |
| Other investments  | (33,477)                 | (29,225) | (8,714)   |
| Bank owned life insurance  | —                        | (20,000) | —         |
| State tax credits held for sale  | —                        | (1,365)  | (19,157)  |
| Fixed assets   | (1,901)                  | (1,338)  | (4,675)   |
| Net cash provided (used) by investing activities                                 | (212,826)                | 176,084  | (6,282)   |



| (in thousands)  | Years ended December 31, |            |            |
|---|--------------------------|------------|------------|
|   | 2014                     | 2013       | 2012       |
| Cash flows from financing activities:                               |                          |            |            |
| Net (decrease) increase in noninterest-bearing deposit accounts     | (10,756 )                | (19,719 )  | 101,325 )  |
| Net decrease in interest-bearing deposit accounts                   | (32,686 )                | (32,876 )  | (233,828 ) |
| Proceeds from Federal Home Loan Bank advances                       | 1,227,500                | 765,000    | 173,500    |
| Repayments of Federal Home Loan Bank advances                       | (1,133,500 )             | (795,000 ) | (195,500 ) |
| Proceeds from notes payable   | —                        | —          | 12,000     |
| Repayments of notes payable   | (4,800 )                 | (1,200 )   | (300 )     |
| Repayments of subordinated debentures                               | —                        | (2,500 )   | —          |
| Debt issuance costs   | —                        | —          | (45 )      |
| Net (decrease) increase in other borrowings                         | 30,352                   | (22,433 )  | 78,825 )   |
| Cash dividends paid on common stock                                 | (4,177 )                 | (3,946 )   | (3,757 )   |
| Excess tax benefit of share-based compensation                      | 205                      | 222        | 66         |
| Payments for the repurchase of preferred stock                      | —                        | —          | (35,000 )  |
| Payments for the repurchase of common stock warrants                | —                        | (1,006 )   | —          |
| Cash dividends paid on preferred stock                              | —                        | —          | (1,711 )   |
| Issuance of common stock  | 2                        | 1          | 3          |
| Proceeds from the issuance of equity instruments, net               | (681 )                   | 2,264      | 1,558      |
| Net cash provided (used) by financing activities                    | 71,459                   | (111,193 ) | (102,864 ) |
| Net increase (decrease) in cash and cash equivalents                | (109,873 )               | 94,199 )   | (71,773 )  |
| Cash and cash equivalents, beginning of period                      | 210,569                  | 116,370    | 188,143    |
| Cash and cash equivalents, end of period                            | \$100,696                | \$210,569  | \$116,370  |
| Supplemental disclosures of cash flow information:                  |                          |            |            |
| Cash paid during the period for:                                    |                          |            |            |
| Interest  | \$14,500                 | \$18,462   | \$22,687   |
| Income taxes  | 8,993                    | 27,133     | 11,333     |
| Noncash transactions:   |                          |            |            |
| Transfer to other real estate owned in settlement of loans          | \$9,869                  | \$22,623   | \$26,484   |
| Sales of other real estate financed                                 | 8,083                    | 9,244      | 5,619      |
| Issuance of common stock from Trust Preferred Securities conversion | 5,002                    | 20,443     | —          |
| Transfer of securities from available for sale to held to maturity  | 46,574                   | —          | —          |

See accompanying notes to consolidated financial statements.

## ENTERPRISE FINANCIAL SERVICES CORP AND SUBSIDIARIES

### Notes to Consolidated Financial Statements

#### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies used by the Company in the preparation of the consolidated financial statements are summarized below:

##### Business and Consolidation

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

The Company is subject to competition from other financial and nonfinancial institutions providing financial services in the markets served by the Company's subsidiary. Additionally, the Company and its banking subsidiary are subject to the regulations of certain federal and state agencies and undergo periodic examinations by those regulatory agencies. The Company has one reportable segment.

##### Use of Estimates

The consolidated financial statements of the Company have been prepared in conformity in accordance with U.S. generally accepted accounting principles (“U.S. GAAP”). In preparing the consolidated financial statements, management is required to make estimates and assumptions, which significantly affect the reported amounts in the consolidated financial statements. Such estimates include the valuation of loans, goodwill, intangible assets, indemnification assets, and other long-lived assets, along with assumptions used in the calculation of income taxes, among others. These estimates and assumptions are based on management's best estimates and judgment. Management evaluates its estimates and assumptions on an ongoing basis using historical experience and other factors, including the current economic environment, which management believes to be reasonable under the circumstances. Management adjusts such estimates and assumptions when facts and circumstances dictate. Decreased real estate values, volatile credit markets, and persistent high unemployment have combined to increase the uncertainty inherent in such estimates and assumptions. As future events and their effects cannot be determined with precision, actual results could differ significantly from these estimates. Changes in those estimates resulting from continuing changes in the economic environment will be reflected in the financial statements in future periods.

##### Cash Flow Information

For purposes of reporting cash flows, the Company considers cash and due from banks, interest-bearing deposits and federal funds sold that mature within 90 days to be cash and cash equivalents. At December 31, 2014 and 2013, approximately \$16.1 million and \$16.8 million, respectively, of cash and due from banks represented required reserves on deposits maintained by the Company in accordance with Federal Reserve Bank requirements.

##### Investments

The Company has classified all investments in debt securities as available for sale or held to maturity.

Securities classified as available for sale are carried at fair value. Unrealized holding gains and losses for available for sale securities are excluded from earnings and reported as a net amount in a separate component of shareholders' equity until realized. All previous fair value adjustments included in the separate component of shareholders' equity

are reversed upon sale.

Securities classified as held to maturity are carried at historical cost and adjusted for amortization of premiums and accretion of discounts.

66

---

Declines in the fair value of securities below their cost that are deemed to be other-than-temporary are reflected in operations as realized losses. In estimating other-than-temporary impairment losses, management systematically evaluates investment securities for other-than-temporary declines in fair value on a quarterly basis. This analysis requires management to consider various factors, which include (1) the present value of the cash flows expected to be collected compared to the amortized cost of the security, (2) duration and magnitude of the decline in value, (3) the financial condition of the issuer or issuers, (4) structure of the security, and (5) the intent to sell the security or whether it's more likely than not that the Company would be required to sell the security before its anticipated recovery in market value.

Premiums and discounts are amortized or accreted over the expected lives of the respective securities as an adjustment to yield using the interest method. Dividend and interest income is recognized when earned. Realized gains and losses are included in earnings and are derived using the specific identification method for determining the cost of securities sold.

#### Loans Held for Sale

The Company provides long-term financing of one-to-four-family residential real estate by originating fixed and variable rate loans. Long-term fixed and variable rate loans are sold into the secondary market with limited recourse. Upon receipt of an application for a real estate loan, the Company determines whether the loan will be sold into the secondary market or retained in the Company's loan portfolio. The interest rates on the loans sold are locked with the buyer and the Company bears no interest rate risk related to these loans. Mortgage loans held for sale are carried at the lower of cost or fair value, which is determined on a specific identification method. The Company does not retain servicing on any loans sold, nor did the Company have any capitalized mortgage servicing rights at December 31, 2014 or 2013. Gains on the sale of loans held for sale are reported net of direct origination fees and costs in the Company's consolidated statements of operations.

#### Portfolio Loans

Loans are reported at the principal balance outstanding net of unearned fees and costs. Loan origination fees and direct origination costs are deferred and recognized over the lives of the related loans as a yield adjustment using the interest method.

Interest income on loans is accrued to income based on the principal amount outstanding. The recognition of interest income is discontinued when a loan becomes 90 days past due or a significant deterioration in the borrower's credit has occurred which, in management's judgment, negatively impacts the collectibility of the loan. Unpaid interest on such loans is reversed at the time the loan becomes uncollectible and subsequent interest payments received are applied to principal if any doubt exists as to the collectibility of such principal; otherwise, such receipts are recorded as interest income. Loans that have not been restructured are returned to accrual status when management believes full collectability of principal and interest is expected. Non-accrual loans that have been restructured will remain in a non-accrual status until the borrower has made at least six months of consecutive contractual payments.

#### Loans Acquired Through Transfer

Loans acquired through the completion of a transfer, including loans acquired in a business combination that have evidence of deterioration of credit quality since origination and for which it is probable, at acquisition, that the Company will be unable to collect all contractually required payments receivable, are initially recorded at fair value (as determined by the present value of expected future cash flows) with no valuation allowance. The difference between the undiscounted cash flows expected at acquisition and the investment in the loans, or the "accretable yield," is recognized as interest income on a level-yield method over the life of the loans. Contractually required payments for interest and principal that exceed the undiscounted cash flows expected at acquisition, or the "nonaccretable difference," are not recognized as a yield adjustment or as a loss accrual or a valuation allowance. The Company aggregates individual loans with common risk characteristics into pools of loans. Increases in expected cash flows subsequent to



the initial investment are recognized prospectively through adjustment of the yield on the loans over their remaining lives. Decreases in expected cash flows due to an inability to collect contractual cash flows are recognized as impairment through the provision for loan losses account. Any allowance for loan loss on these pools reflect only losses incurred after the acquisition (meaning the present value of all cash flows expected at acquisition that ultimately are not to be

67

---

received). Any disposals of loans, including sales of loans, payments in full or foreclosures result in the removal of the loan from the loan pool at the carrying amount with differences in actual results reflected in interest income.

#### Impaired Loans

Loans are considered “impaired” when it becomes probable that the Company will be unable to collect all amounts due according to the loan's contractual terms. Non-accrual loans, loans past due greater than 90 days and still accruing, unless adequately secured and in the process of collection, and restructured loans qualify as “impaired loans.” Restructured loans involve the granting of a concession to a borrower experiencing financial difficulty involving the modification of terms of the loan, such as changes in payment schedule or interest rate.

When measuring impairment, the expected future cash flows of an impaired loan are discounted at the loan's effective interest rate at origination. Alternatively, impairment can be measured by reference to an observable market price, if one exists, or the fair value of the collateral for a collateral-dependent loan. Interest income on impaired loans is not accrued but is recorded when cash is received and only if principal is considered to be fully collectable. Loans and leases, which are deemed uncollectable, are charged off to the allowance for loan losses, while recoveries of amounts previously charged off are credited to the allowance for loan losses.

Impaired loans exclude credit-impaired loans that were acquired in the FDIC-assisted transactions. These purchased credit-impaired loans are accounted for on a pool basis and are generally considered accruing and performing loans as the loans accrete interest income over the estimated life of the loan when cash flows are reasonably estimable. Accordingly, acquired credit impaired loans that are contractually past due may still be considered to be accruing and performing loans. If the timing and amount of future cash flows is not reasonably estimable, the loans may be classified as nonaccrual loans and the purchase price discount on those loans is not recorded as interest income until the timing and amount of future cash flows can be reasonably estimated. See Acquisitions and Divestitures later in this Note and Note 7 - Purchase Credit Impaired Loans for more information on these loans.

Loans are generally placed on non-accrual status when contractually past due 90 days or more as to interest or principal payments. Additionally, whenever management becomes aware of facts or circumstances that may adversely impact the collectability of principal or interest on loans, it is management's practice to place such loans on non-accrual status immediately, rather than delaying such action until the loans become 90 days past due. Previously accrued and uncollected interest on such loans is reversed. Income is recorded only to the extent that a determination has been made that the principal balance of the loan is collectable and the interest payments are subsequently received in cash, or for a restructured loan, the borrower has made six consecutive contractual payments. If collectability of the principal is in doubt, payments received are applied to loan principal.

Loans past due 90 days or more but still accruing interest are also generally included in nonperforming loans. Loans past due 90 days or more but still accruing are classified as such where the underlying loans are both well secured (the collateral value is sufficient to cover principal and accrued interest) and are in the process of collection. At December 31, 2014, we did not have any loans past due greater than 90 days and not included in nonperforming loans.

#### Loan Charge-Offs

Loans are charged-off when the primary and secondary sources of repayment (cash flow, collateral, guarantors, etc.) are less than their carrying value.

#### Allowance For Loan Losses

The allowance for loan losses is increased by provision charged to expense and is available to absorb charge-offs, net of recoveries. Management utilizes a systematic, documented approach in determining the appropriate level of the allowance for loan losses. The level of the allowance reflects management's continuing evaluation of industry concentrations; specific credit risks; loan loss experience; current loan portfolio quality; present economic, political

and regulatory conditions; and probable losses inherent in the current loan portfolio. The determination of the appropriate level of the allowance for loan losses inherently involves a degree of subjectivity and requires that the Company make significant estimates of current credit risks and future trends, all of which may undergo material changes. Changes in economic conditions affecting borrowers, new information regarding existing loans, identification

68

---

of additional problem loans and other factors, both within and outside of our control, may require an increase in the allowance for loan losses.

Management believes the allowance for loan losses is adequate to absorb inherent losses in the loan portfolio. While management uses available information to recognize losses on loans, future additions to the allowance may be necessary based on changes in economic conditions and other factors. In addition, various regulatory agencies, as an integral part of the examination process, periodically review the Bank's loan portfolio. Such agencies may require additions to the allowance for loan losses based on their judgments and interpretations of information available to them at the time of their examinations.

#### Allowance for Loan Losses on Purchase Credit Impaired Loans

The Company updates its cash flow projections for purchase credit impaired loans, including loans acquired with FDIC loss share coverage, on a periodic basis. Assumptions utilized in this process include projections related to probability of default, loss severity, prepayment, extensions and recovery lag. Projections related to probability of default and prepayment are calculated utilizing a loan migration analysis. The loan migration analysis is a matrix of probability that specifies the probability of a loan pool transitioning into a particular delinquency or liquidation state given its current state at the re-measurement date. Loss severity factors are based upon industry data and experience.

Any decreases in expected cash flows after the acquisition date and subsequent measurement periods are recognized by recording an impairment in the provision for loan losses. See Loans Acquired Through Transfer above for further discussion. Any increase in expected future cash flows due to a decrease in expected credit losses will reverse previously recorded impairment, if any, and add to the accretable yield on the loan pool, prospectively.

#### Other Real Estate

Other real estate represents property acquired through foreclosure or deeded to the Company in lieu of foreclosure on loans on which the borrowers have defaulted on the payment of principal or interest. Other real estate is recorded on an individual asset basis at the lower of cost or fair value less estimated costs to sell. The fair value of other real estate is based upon estimates of future cash flows, market value of similar assets, if available, or independent appraisals. These estimates involve significant uncertainties and judgments. As a result, fair value estimates may not be realizable in a current sale or settlement of the other real estate. Subsequent reductions in fair value are expensed within noninterest expense.

Gains and losses resulting from the sale of other real estate are credited or charged to current period earnings. Costs of maintaining and operating other real estate are expensed as incurred, and expenditures to complete or improve other real estate properties are capitalized if the expenditures are expected to be recovered upon ultimate sale of the property.

#### FDIC Loss Share Receivable and Clawback Liability

As part of the FDIC-assisted transactions, the Bank entered into loss sharing agreements with the FDIC. The FDIC will reimburse the Bank for a percentage of realized losses on loans and foreclosed real estate covered under the agreement ("Covered Assets"). In addition, the Bank will be reimbursed for certain expenses related to the Covered Assets. At the acquisition date, the fair value of the amount due from the FDIC ("FDIC Loss Share Receivable") was estimated based on expected losses and cash flows on the Covered Assets. The FDIC Loss Share Receivable is measured separately from the related Covered Assets and recorded separately on the balance sheet because it is not contractually embedded in the Covered Assets and is not transferable. Although these assets are contractual receivables from the FDIC, there are no contractual interest rates.

Subsequent to initial recognition, the FDIC Loss Share Receivable is reviewed quarterly and adjusted for any changes in expected cash flows. These adjustments are measured on the same basis as the related Covered Assets. Any

decrease in expected cash flows due to an increase in expected credit losses will increase the FDIC Loss Share Receivable which will partially offset the impairment recorded on the PCI loans. The amount of the increase is recorded in noninterest income and is determined based on the specific loss share agreement, but is generally 80% of the losses. Any increase in expected future cash flows due to a decrease in expected credit losses will decrease the accretion of the FDIC Loss Share Receivable prospectively over its remaining life. Increases and decreases to the FDIC Loss Share Receivable are recorded as adjustments to noninterest income.

As stipulated in some of its agreements with the FDIC, the Company may be required to reimburse the FDIC if certain levels of cash flows are met over the duration of a loss share agreement. This reimbursement, or clawback liability, is measured quarterly over the duration of the agreement.

#### Fixed Assets

Buildings, leasehold improvements, furniture, fixtures, equipment, and capitalized software are stated at cost less accumulated depreciation. All categories are computed using the straight-line method over their respective estimated useful lives. Furniture, fixtures and equipment is depreciated over three to ten years, buildings and leasehold improvements over ten to forty years, and capitalized software over three years based upon estimated lives or lease obligation periods.

#### State Tax Credits Held for Sale

The Company has purchased the rights to receive 10-year streams of state tax credits at agreed upon discount rates and sells such tax credits to wealth management customers and others. All state tax credits purchased prior to 2009 are accounted for at fair value. All state tax credits purchased since 2009 are accounted for at cost. The Company elected not to account for the state tax credits purchased since 2009 at fair value in order to limit the volatility of the fair value changes in the Company's consolidated statements of operations.

#### Cash Surrender Value of Life Insurance

The Company has purchased bank-owned life insurance policies on certain bank officers. Bank-owned life insurance is recorded at its cash surrender value. Changes in the cash surrender values are included in noninterest income.

#### Federal Home Loan Bank Stock

The Bank, as a member of the Federal Home Loan Bank of Des Moines ("FHLB"), is required to maintain an investment in the capital stock of the FHLB. The stock is redeemable at par by the FHLB, and is, therefore, carried at cost and periodically evaluated for impairment. The Company records FHLB dividends in interest income on the ex-dividend date.

#### Goodwill and Other Intangible Assets

The Company tests goodwill for impairment on an annual basis and whenever events or changes in circumstances indicate that the Company may not be able to recover the respective asset's carrying amount. The Company's annual test for impairment was performed in the fourth quarter of 2014. Such tests involve the use of estimates and assumptions. Core deposit intangibles are amortized using an accelerated method over an estimated useful life of approximately 10 years.

The Company identifies potential goodwill impairments by first performing a qualitative assessment and then by comparing the fair value of a reporting unit to its carrying amount, including goodwill. Goodwill impairment is not indicated as long as it is more likely than not that impairment has not occurred based on the qualitative assessment or based on the quantitative assessment the fair value of the reporting unit is greater than its carrying value. The second step of the impairment test is only required if a goodwill impairment is identified in step one. The second step of the test compares the implied fair value of goodwill to its carrying amount. If the carrying amount of goodwill exceeds its implied fair value, an impairment loss is recognized. That loss is equal to the carrying amount of goodwill that is in excess of its implied fair market value.

### Impairment of Long-Lived Assets

Long-lived assets, such as fixed assets and purchased intangibles subject to amortization, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized in the amount by which the carrying amount of the asset exceeds the fair value of the asset. Assets to be disposed of are separately presented in the balance sheet and reported at the lower of the carrying amount or fair value less costs to sell, and are no longer depreciated. The assets and liabilities of a disposal group classified as held for sale are presented separately in the appropriate asset and liability sections of the balance sheet.

### Derivative Financial Instruments and Hedging Activities

The Company uses derivative financial instruments to assist in the management of interest rate sensitivity and to modify the repricing, maturity and option characteristics of certain assets and liabilities. In addition, the Company also offers an interest rate hedge program that includes interest rate swaps to assist its customers in managing their interest rate risk profile. In order to eliminate the interest rate risk associated with offering these products, the Company enters into derivative contracts with third parties to offset the customer contracts.

Derivative instruments are required to be measured at fair value and recognized as either assets or liabilities in the consolidated financial statements. Fair value represents the payment the Company would receive or pay if the item were sold or bought in a current transaction. The accounting for changes in fair value (gains or losses) of a hedged item is dependent on whether the related derivative is designated and qualifies for "hedge accounting." The Company assigns derivatives to one of these categories at the purchase date: cash flow hedge, fair value hedge, or non-designated derivatives. An assessment of the expected and ongoing hedge effectiveness of any derivative designated a fair value hedge or cash flow hedge is performed as required by the accounting standards. Derivatives are included in other assets and other liabilities in the consolidated balance sheets. Generally, the only derivative instruments used by the Company have been interest rate swaps and interest rate caps.

The following is a summary of the Company's accounting policies for derivative instruments and hedging activities.

**Cash Flow Hedges** - Derivatives designated as cash flow hedges are recorded at fair value. The effective portion of the change in fair value is recorded (net of taxes) as a component of other comprehensive income ("OCI") in shareholders' equity. Amounts recorded in OCI are subsequently reclassified into interest income or expense (depending on whether the hedged item is an asset or liability) when the underlying transaction affects earnings. The ineffective portion of the change in fair value is recorded in noninterest income. Upon dedesignation of a derivative financial instrument from a cash flow hedge relationship, any remaining amounts in OCI are recorded in noninterest income over the expected remaining life of the underlying forecasted hedge transaction. The net interest differential between the hedged item and the hedging derivative financial instrument are recorded as an adjustment to interest income or interest expense of the related asset or liability.

**Fair Value Hedges** - For derivatives designated as fair value hedges, the change in fair value of the derivative instrument and related hedged item are recorded in the related interest income or expense, as applicable, except for the ineffective portion, which is recorded in noninterest income in the consolidated statements of income. The swap agreement is accounted for on an accrual basis with the net interest differential being recognized as an adjustment to interest income or interest expense of the related asset or liability.

**Non-Designated Derivatives** - Certain derivative financial instruments are not designated as cash flow or as fair value hedges for accounting purposes. These non-designated derivatives are intended to provide interest rate protection on net interest income or noninterest income but do not meet hedge accounting treatment. Customer accommodation

interest rate swap contracts are not designated as hedging instruments. Changes in the fair value of these instruments are recorded in interest income or noninterest income in the consolidated statements of income depending on the underlying hedged item.



### Income Taxes

The Company and its subsidiaries file a consolidated federal income tax return. Deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates in effect for the year in which those temporary differences are expected to be recovered or settled. We evaluated the need for deferred tax asset valuation allowances based on a more-likely-than-not standard. The ability to realize deferred tax assets depends on the ability to generate sufficient positive taxable income within the carryback or carryforward periods provided for in the laws for each applicable taxing jurisdiction. We consider the following possible sources of taxable income: future reversal patterns of existing taxable temporary differences, future taxable income exclusive of reversing temporary differences, taxable income in prior carryback years and the availability of qualified tax planning strategies. The assessment regarding whether a valuation allowance is required or should be adjusted depends on all available positive and negative factors including, but not limited to, nature, frequency, and severity of recent losses, duration of available carryforward periods, historical experience with tax attributes expiring unused and near and medium term financial outlook. Because of the complexity of tax laws and regulations, interpretation can be difficult and subject to legal judgment given specific facts and circumstances. It is possible that others, given the same information, may at any point in time reach different reasonable conclusions regarding the estimated amounts of accrued taxes.

### Stock-Based Compensation

Stock-based compensation is recognized as an expense in the consolidated financial statements and measured at the grant date fair value for all equity classified awards and recognized over the required service period.

### Acquisitions and Divestitures

The assets and liabilities of the acquired entities have been recorded at their estimated fair values at the date of acquisition. Goodwill represents the excess of the purchase price over the fair value of net assets, including the amount assigned to identifiable intangible assets.

The purchase price allocation process requires an estimation of the fair values of the assets acquired and the liabilities assumed. When a business combination agreement provides for an adjustment to the cost of the combination contingent on future events, the Company includes an estimate of the acquisition-date fair value as part of the cost of the combination. The results of operations of the acquired business are included in the Company's consolidated financial statements from the respective date of acquisition. As a general rule, goodwill established in connection with a stock purchase is non-deductible for tax purposes.

For divestitures, the Company measures an asset (disposal group) classified as held for sale at the lower of its carrying value at the date the asset is initially classified as held for sale or its fair value less costs to sell. The Company reports the results of operations of a component that either has been disposed of or held for sale as discontinued operations if:

• The operations and cash flows of the disposal group will be eliminated from the ongoing operations as a result of the disposal transaction, and

• The Company will not have any significant continuing involvement in the operations of the entity after the disposal transaction.

Any incremental direct costs incurred to transact the sale are allocated against the gain or loss on the sale. These costs would include items like legal fees, title transfer fees, broker fees, etc. Any goodwill and intangible assets associated with the portion of the reporting unit to be disposed of is included in the carrying amount of the business in determining the gain or loss on the sale.

The Company has acquired a portfolio of PCI assets through FDIC assisted transactions. The PCI loans acquired were recorded at estimated fair value. As such, there was no allowance for credit losses established related to the acquired loans at the various acquisition dates and no carryover of the related allowance from the failed banks. The loans are accounted for in accordance with guidance for certain loans acquired in a transfer, when the loans have evidence of credit deterioration and it is probable at the date of acquisition that the acquirer will not collect all contractually required

72

---

principal and interest payments. The difference between contractually required payments and the cash flows expected to be collected at acquisition is referred to as the non-accretable difference. Subsequent decreases to the expected cash flows will generally result in a provision for loan losses. Subsequent increases in cash flows result in a reversal of the provision for loan losses to the extent of prior charges and an adjustment in accretable yield, which will have a positive impact on interest income, prospectively.

In connection with each acquisition, the Bank also entered into a shared-loss agreement whereby the FDIC will reimburse the Bank for a percentage of all losses incurred on certain loans and other real estate covered under the agreement. The shared-loss agreements are subject to the servicing procedures as specified in the agreement with the FDIC. The shared-loss agreements applicable to single-family residential mortgage loans have terms of ten years, while the shared-loss agreements applicable to all other Covered Assets have terms of five years, while requiring the Bank to reimburse the FDIC for any recoveries of such shared losses for a period of eight years.

The reimbursable losses from the FDIC were recorded at fair value as of the date of acquisition based on the present value of expected cash flows from the reimbursement of credit losses on the Covered Assets. These reimbursable losses, which are recorded as FDIC loss share receivable on the Consolidated Balance Sheets, are measured separately from the Covered Assets as the shared-loss agreement with the FDIC is not contractually embedded in or transferable with the Covered Assets. Reimbursements received from the FDIC for actual incurred losses will reduce the FDIC loss share receivable. Subsequent measurements of the remaining loss reimbursements under the shared-loss agreement are determined on the same basis as the Covered Assets. In certain circumstances, reductions to the expected losses on the Covered Assets will result in the amortization of the FDIC loss share receivable. Any amortization of the FDIC loss share receivable shall be limited to the lesser of the contractual terms of the shared-loss agreement and the remaining life of the Covered Assets. Additional expected losses, to the extent such expected losses result in a provision for loan losses, will increase the FDIC loss share receivable, subject to the remaining term of the shared-loss agreement.

#### Basic and Diluted Earnings Per Common Share

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

#### Consolidated Statement of Comprehensive Income

The Consolidated Statement of Comprehensive Income includes the amount and the related tax impact that have been reclassified from accumulated other comprehensive income to net income. The classification adjustment for unrealized loss/gain on sale of securities included in net income has been recorded through the gain on sale of investment securities line item, within noninterest income, in the Company's Consolidated Statements of Operations.

## NOTE 2 - ACQUISITIONS & DIVESTITURES

#### Branch Sale

On December 6, 2013 the Company sold two of its Kansas City branches to another financial institution. The agreement calls for the sale of substantially all of the deposits at these branches, as well as specified loans and other assets. The Company recorded a pre-tax gain of \$1.0 million upon completion of the transaction primarily attributed to a premium on the deposits that were sold.



The following table summarizes the primary balance sheet amounts relative to the branches sold:

(in thousands)

|                           |          |
|---------------------------|----------|
| Assets                    |          |
| Cash and cash equivalents | \$434    |
| Loans                     | 7,574    |
| Other assets              | 1,040    |
| Liabilities               |          |
| Deposits                  | \$78,431 |

In addition to the branch sale discussed above, the Company closed two branches in the Kansas City region. In conjunction with the closure, the Company recorded a liability and corresponding expense for the difference between the net present value of future lease payments and its estimated sublease income at one of the closed branches. As of December 31, 2014, this liability was \$0.7 million. The Company recorded expense for the estimated net lease liability of \$0.4 million and \$0.5 million in 2014 and 2013, respectively. The expense is recorded within other noninterest expense for 2014 and 2013.

74

---

## NOTE 3 - EARNINGS PER SHARE

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

| (in thousands, except per share data)   | Years ended December 31, |          |          |
|---|--------------------------|----------|----------|
|   | 2014                     | 2013     | 2012     |
| Net income as reported  | \$27,173                 | \$33,104 | \$28,296 |
| Preferred stock dividend  | —                        | —        | (1,488 ) |
| Accretion of preferred stock discount   | —                        | —        | (1,707 ) |
| Net income available to common shareholders   | \$27,173                 | \$33,104 | \$25,101 |
| Impact of assumed conversions   |                          |          |          |
| Interest on 9% convertible trust preferred securities, net of income tax              | 66                       | 1,015    | 1,485    |
| Net income available to common shareholders and assumed conversions                   | \$27,239                 | \$34,119 | \$26,586 |
| Weighted average common shares outstanding  | 19,761                   | 18,582   | 17,859   |
| Incremental shares from assumed conversions of convertible trust preferred securities | 57                       | 1,001    | 1,439    |
| Additional dilutive common stock equivalents  | 292                      | 168      | 40       |
| Weighted average diluted common shares outstanding                                    | \$20,110                 | \$19,751 | \$19,338 |
| Basic earnings per common share:  | \$1.38                   | \$1.78   | \$1.41   |
| Diluted earnings per common share:  | \$1.35                   | \$1.73   | \$1.37   |

There were 0.3 million common stock equivalents for fiscal year 2014; 0.5 million common stock equivalents for fiscal year 2013; and 1.0 million common stock equivalents (including 324,074 common stock warrants) for fiscal year 2012, which were excluded from the earnings per share calculations because their effect was anti-dilutive.

## NOTE 4 - PREFERRED STOCK AND COMMON STOCK WARRANTS

On December 19, 2008, the Company entered into an agreement with the United States Department of the Treasury (“U.S. Treasury”) under the Capital Purchase Program, pursuant to which the Company sold (i) 35,000 shares of Fixed Rate Cumulative Perpetual Preferred Stock, Series A (“Senior Preferred Stock”) and (ii) a warrant to purchase 324,074 shares of EFSC common stock (“common stock warrants”), par value \$0.01 per share, for an aggregate investment by the U.S. Treasury of \$35.0 million. On November 7, 2012, the Company repurchased all of the Senior Preferred Stock from the U.S. Treasury for an aggregate purchase price of \$35.4 million, which included \$0.4 million for accrued and unpaid dividends. On January 9, 2013, the Company repurchased the warrants issued to the U.S. Treasury as part of the Capital Purchase Program for approximately \$1.0 million. After completing the warrant repurchase the Company ended its participation in the U.S. Treasury Capital Purchase Program.

## NOTE 5 - 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:

| (in thousands)                                       | December 31, 2014 |                        |                         |             |
|--|-------------------|------------------------|-------------------------|-------------|
|  | Amortized Cost    | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value  |
| Available for sale securities:                       |                   |                        |                         |             |
| Obligations of U.S. Government-sponsored enterprises | \$91,355          | \$624                  | \$(153)                 | ) \$91,826  |
| Obligations of states and political subdivisions     | 33,997            | 1,300                  | (416)                   | ) 34,881    |
| Agency mortgage-backed securities                    | 271,430           | 3,577                  | (1,568)                 | ) 273,439   |
| Total securities available for sale                  | \$396,782         | \$5,501                | \$(2,137)               | ) \$400,146 |
| Held to maturity securities:                         |                   |                        |                         |             |
| Obligations of states and political subdivisions     | \$14,900          | —                      | (325)                   | ) \$14,575  |
| Agency mortgage-backed securities                    | 31,085            | 150                    | (15)                    | ) 31,220    |
| Total securities held to maturity                    | \$45,985          | \$150                  | \$(340)                 | ) \$45,795  |
| (in thousands)                                       | December 31, 2013 |                        |                         |             |
|  | Amortized Cost    | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value  |
| Available for sale securities:                       |                   |                        |                         |             |
| Obligations of U.S. Government-sponsored enterprises | \$93,218          | \$700                  | \$(388)                 | ) \$93,530  |
| Obligations of states and political subdivisions     | 49,721            | 983                    | (1,761)                 | ) 48,943    |
| Agency mortgage-backed securities                    | 298,623           | 2,675                  | (9,184)                 | ) 292,114   |
|  | \$441,562         | \$4,358                | \$(11,333)              | ) \$434,587 |

At December 31, 2014, and December 31, 2013, there were no holdings of securities of any one issuer in an amount greater than 10% of shareholders' equity, other than the U.S. Government agencies and sponsored enterprises. The agency mortgage-backed securities are all issued by U.S. Government-sponsored enterprises. Available for sale securities having a fair value of \$315.8 million and \$270.1 million at December 31, 2014, and December 31, 2013, respectively, were pledged as collateral to secure deposits of public institutions and for other purposes as required by law or contract provisions.

During the fourth quarter of 2014, \$46.6 million of available for sale securities were transferred to a held to maturity portfolio. The transfers of debt securities into the held to maturity category from the available for sale category were made at fair value at the date of transfer. The unrealized holding gain or loss at the date of transfer was retained in other comprehensive income and in the carrying value of the held to maturity securities. This amount will be amortized over the remaining life of the securities.

The amortized cost and estimated fair value of debt securities at December 31, 2014, by contractual maturity, are shown below. Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties. The weighted average life of the mortgage-backed securities is approximately 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                | \$3,824            | \$3,876              | \$—              | \$—                  |
| Due after one year through five years  | 107,834            | 108,889              | 663              | 661                  |
| Due after five years through ten years | 10,794             | 11,323               | 10,830           | 10,604               |
| Due after ten years                    | 2,900              | 2,620                | 3,407            | 3,311                |
| Mortgage-backed securities             | 271,430            | 273,438              | 31,085           | 31,219               |
|  | \$396,782          | \$400,146            | \$45,985         | \$45,795             |

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

| (in thousands)                                       | December 31, 2014   |                   |                   |                   |            |                   |
|--|---------------------|-------------------|-------------------|-------------------|------------|-------------------|
|  | Less than 12 months |                   | 12 months or more |                   | Total      |                   |
|  | Fair Value          | Unrealized Losses | Fair Value        | Unrealized Losses | Fair Value | Unrealized Losses |
| Obligations of U.S. Government-sponsored enterprises | \$5,399             | \$(10)            | \$24,852          | \$(143)           | \$30,251   | \$(153)           |
| Obligations of states and political subdivisions     | 16,827              | (343)             | 5,349             | (398)             | 22,176     | (741)             |
| Agency mortgage-backed securities                    | 26,367              | (56)              | 97,054            | (1,527)           | 123,421    | (1,583)           |
|  | \$48,593            | \$(409)           | \$127,255         | \$(2,068)         | \$175,848  | \$(2,477)         |

  

| (in thousands)                                       | December 31, 2013   |                   |                   |                   |            |                   |
|--|---------------------|-------------------|-------------------|-------------------|------------|-------------------|
|  | Less than 12 months |                   | 12 months or more |                   | Total      |                   |
|  | Fair Value          | Unrealized Losses | Fair Value        | Unrealized Losses | Fair Value | Unrealized Losses |
| Obligations of U.S. Government-sponsored enterprises | \$30,221            | \$(388)           | \$—               | \$—               | \$30,221   | \$(388)           |
| Obligations of states and political subdivisions     | 17,141              | (952)             | 7,168             | (809)             | 24,309     | (1,761)           |
| Agency mortgage-backed securities                    | 159,999             | (7,338)           | 21,437            | (1,846)           | 181,436    | (9,184)           |
|  | \$207,361           | \$(8,678)         | \$28,605          | \$(2,655)         | \$235,966  | \$(11,333)        |

The unrealized losses at both December 31, 2014, and 2013, were primarily attributable to changes in market interest rates since the securities were purchased. Management systematically evaluates investment securities for other-than-temporary declines in fair value on a quarterly basis. This analysis requires management to consider various factors, which include 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 that the Company would be required to sell the security before its anticipated recovery in market value. At December 31, 2014 and 2013, 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)        | December 31, |         |         |
|-----------------------|--------------|---------|---------|
|                       | 2014         | 2013    | 2012    |
| Gross gains realized  | \$—          | \$1,477 | \$1,399 |
| Gross losses realized | —            | (182    | ) (243  |
| Proceeds from sales   | —            | 159,604 | 110,876 |

#### Other Investments, At Cost

As a member of the FHLB system administered by the Federal Housing Finance Board, the Bank is required to maintain a minimum investment in capital stock with the FHLB Des Moines consisting of membership stock and activity-based stock. The FHLB capital stock of \$9.6 million is recorded at cost, which represents redemption value, and is included in Other investments in the consolidated balance sheets. The Bank also has a \$0.3 million investment in the FHLB of San Francisco. The remaining amounts in Other investments include the Company's investment in unconsolidated trusts used to issue preferred securities to third parties (see Note 12 - Subordinated Debentures) and various private equity investments.

## NOTE 6 - PORTFOLIO LOANS

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

| (in thousands)                                 | December 31, 2014 | December 31, 2013 |
|--|-------------------|-------------------|
| Real estate loans:                             |                   |                   |
| Construction and land development              | \$ 144,773        | \$ 117,032        |
| Commercial - Investor Owned                    | 413,026           | 437,688           |
| Commercial - Owner Occupied                    | 357,503           | 341,631           |
| Residential real estate                        | 185,252           | 158,527           |
| Total real estate loans                        | 1,100,554         | 1,054,878         |
| Commercial and industrial                      | 1,270,259         | 1,041,576         |
| Consumer and other                             | 62,208            | 39,838            |
| Portfolio loans                                | 2,433,021         | 2,136,292         |
| Unearned loan costs, net                       | 895               | 1,021             |
| Portfolio loans, including unearned loan costs | \$ 2,433,916      | \$ 2,137,313      |

Following is a summary of activity for the years ended December 31, 2014, 2013, and 2012 of loans to executive officers and directors, or to entities in which such individuals had beneficial interests as a shareholder, officer, or director. Such loans were made in the normal course of business on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with other customers and did not involve more than the normal risk of collectability.

| (in thousands)                | December 31, 2014 | December 31, 2013 | December 31, 2012 |
|-------------------------------|-------------------|-------------------|-------------------|
| Balance at beginning of year  | \$ 11,752         | \$ 16,875         | \$ 13,413         |
| New loans and advances        | 11,796            | 6,519             | 8,162             |
| Payments and other reductions | (10,035           | ) (11,642         | ) (4,700          |
| Balance at end of year        | \$ 13,513         | \$ 11,752         | \$ 16,875         |

A summary of activity in the allowance for loan losses and the recorded investment in Portfolio loans by class and category based on impairment method for the years ended indicated below is as follows:

| (in thousands)                     | Commercial<br>&<br>Industrial | Commercial<br>Real Estate<br>Owner<br>Occupied | Commercial<br>Real Estate<br>Investor<br>Owned | Construction<br>and Land<br>Development | Residential<br>Real<br>Estate | Consumer<br>& Other | Unallocated | Total    |
|------------------------------------|-------------------------------|--|--|---|-------------------------------|---------------------|-------------|----------|
| Balance at<br>December 31,<br>2014 |                               |  |  |   |                               |                     |             |          |
| Allowance for<br>Loan Losses:      |                               |  |  |   |                               |                     |             |          |
| Balance,<br>beginning of year      | \$12,246                      | \$4,096  | \$6,600  | \$2,136                                 | \$2,019                       | \$192               | \$—         | \$27,289 |
| Provision charged<br>to expense    | 6,728                         | (1,027)  | (1,847)  | (317)                                   | 525                           | 347                 | —           | 4,409    |
| Losses charged<br>off              | (3,738)                       | (450)  | (250)  | (905)                                   | (48)                          | (165)               | —           | (5,556)  |
| Recoveries                         | 1,768                         | 1,006  | 95   | 806                                     | 334                           | 34                  | —           | 4,043    |
| Balance, end of<br>year            | \$17,004                      | \$3,625  | \$4,598  | \$1,720                                 | \$2,830                       | \$408               | \$—         | \$30,185 |
| Balance at<br>December 31,<br>2013 |                               |  |  |   |                               |                     |             |          |
| Allowance for<br>Loan Losses:      |                               |  |  |   |                               |                     |             |          |
| Balance,<br>beginning of year      | \$10,064                      | \$4,192  | \$10,403                                       | \$5,239                                 | \$2,026                       | \$31                | \$2,375     | \$34,330 |
| Provision charged<br>to expense    | 3,810                         | 410  | (94)   | (2,695)                                 | 107                           | 195                 | (2,375)     | (642)    |
| Losses charged<br>off              | (3,404)                       | (550)  | (4,441)  | (896)                                   | (1,053)                       | (34)                | —           | (10,378) |
| Recoveries                         | 1,776                         | 44   | 732  | 488                                     | 939                           | —                   | —           | 3,979    |
| Balance, end of<br>year            | \$12,246                      | \$4,096  | \$6,600  | \$2,136                                 | \$2,019                       | \$192               | \$—         | \$27,289 |
| Balance at<br>December 31,<br>2012 |                               |  |  |   |                               |                     |             |          |
| Allowance for<br>Loan Losses:      |                               |  |  |   |                               |                     |             |          |
| Balance,<br>beginning of year      | \$11,945                      | \$6,297  | \$6,751  | \$5,847                                 | \$3,931                       | \$14                | \$3,204     | \$37,989 |
| Provision charged<br>to expense    | 774                           | 1,173  | 6,294  | 3,081                                   | (1,751)                       | 15                  | (829)       | 8,757    |
| Losses charged<br>off              | (3,233)                       | (3,326)  | (2,728)  | (4,384)                                 | (1,605)                       | —                   | —           | (15,276) |
| Recoveries                         | 578                           | 48   | 86   | 695                                     | 1,451                         | 2                   | —           | 2,860    |

Edgar Filing: ENTERPRISE FINANCIAL SERVICES CORP - Form 10-K

|                      |          |         |          |         |         |      |         |          |
|----------------------|----------|---------|----------|---------|---------|------|---------|----------|
| Balance, end of year | \$10,064 | \$4,192 | \$10,403 | \$5,239 | \$2,026 | \$31 | \$2,375 | \$34,330 |
|----------------------|----------|---------|----------|---------|---------|------|---------|----------|

80

---

| (in thousands)                                    | Commercial<br>& Industrial | Commercial<br>Real Estate<br>Owner<br>Occupied | Commercial<br>Real Estate<br>Investor<br>Owned | Construction<br>and Land<br>Development | Residential<br>Real Estate | Consumer<br>& Other | Total       |
|---|----------------------------|--|--|---|----------------------------|---------------------|-------------|
| Balance at December<br>31, 2014                   |                            |  |  |   |                            |                     |             |
| Allowance for Loan<br>Losses - Ending<br>Balance: |                            |  |  |   |                            |                     |             |
| Individually evaluated<br>for impairment          | \$704                      | \$286  | \$—  | \$352                                   | \$1,052                    | \$—                 | \$2,394     |
| Collectively evaluated<br>for impairment          | 16,300                     | 3,339  | 4,598  | 1,368                                   | 1,778                      | 408                 | 27,791      |
| Total   | \$17,004                   | \$3,625  | \$4,598  | \$1,720                                 | \$2,830                    | \$408               | \$30,185    |
| Loans - Ending<br>Balance:                        |                            |  |  |   |                            |                     |             |
| Individually evaluated<br>for impairment          | \$5,998                    | \$3,384  | \$5,036  | \$6,866                                 | \$3,082                    | \$—                 | \$24,366    |
| Collectively evaluated<br>for impairment          | 1,264,261                  | 354,119  | 407,990  | 137,907                                 | 182,170                    | 63,103              | 2,409,550   |
| Total   | \$1,270,259                | \$357,503                                      | \$413,026                                      | \$144,773                               | \$185,252                  | \$63,103            | \$2,433,916 |
| Balance December<br>31, 2013                      |                            |  |  |   |                            |                     |             |
| Allowance for Loan<br>Losses - Ending<br>Balance: |                            |  |  |   |                            |                     |             |
| Individually evaluated<br>for impairment          | \$736                      | \$107  | \$—  | \$703                                   | \$4                        | \$—                 | \$1,550     |
| Collectively evaluated<br>for impairment          | 11,510                     | 3,989  | 6,600  | 1,433                                   | 2,015                      | 192                 | 25,739      |
| Total   | \$12,246                   | \$4,096  | \$6,600  | \$2,136                                 | \$2,019                    | \$192               | \$27,289    |
| Loans - Ending<br>Balance:                        |                            |  |  |   |                            |                     |             |
| Individually evaluated<br>for impairment          | \$3,380                    | \$606  | \$6,811  | \$9,484                                 | \$559                      | \$—                 | \$20,840    |
| Collectively evaluated<br>for impairment          | 1,038,196                  | 341,025  | 430,877  | 107,548                                 | 157,968                    | 40,859              | 2,116,473   |
| Total   | \$1,041,576                | \$341,631                                      | \$437,688                                      | \$117,032                               | \$158,527                  | \$40,859            | \$2,137,313 |

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

| (in thousands)                    | December 31, 2014                    |                                       |                                    |                           |                   |                             |
|-----------------------------------|--------------------------------------|---------------------------------------|------------------------------------|---------------------------|-------------------|-----------------------------|
|                                   | Unpaid Contractual Principal Balance | Recorded Investment With No Allowance | Recorded Investment With Allowance | Total Recorded Investment | Related Allowance | Average Recorded Investment |
| Commercial & Industrial           | \$8,042                              | \$2,609                               | \$3,464                            | \$6,073                   | \$704             | \$4,136                     |
| Real Estate:                      |                                      |                                       |                                    |                           |                   |                             |
| Commercial - Owner Occupied       | 1,376                                | 770                                   | 519                                | 1,289                     | 286               | 1,281                       |
| Commercial - Investor Owned       | 5,036                                | —                                     | 5,187                              | 5,187                     | —                 | 4,375                       |
| Construction and Land Development | 7,961                                | 419                                   | 6,929                              | 7,348                     | 352               | 7,280                       |
| Residential                       | 3,082                                | 2,943                                 | 150                                | 3,093                     | 1,052             | 954                         |
| Consumer & Other                  | —                                    | —                                     | —                                  | —                         | —                 | 581                         |
| Total                             | \$25,497                             | \$6,741                               | \$16,249                           | \$22,990                  | \$2,394           | \$18,607                    |

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

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

| (in thousands)   | December 31, |         |         |
|--|--------------|---------|---------|
|  | 2014         | 2013    | 2012    |
| Total interest income that would have been recognized under original terms | \$1,013      | \$1,538 | \$2,736 |
| Total cash received and recognized as interest income on non-accrual loans | 118          | 257     | 402     |
| Total interest income recognized on impaired loans                         | 39           | 16      | 461     |

There were no loans over 90 days past due and still accruing interest at December 31, 2014 and no loans over 90 days and still accruing interest at December 31, 2013. At December 31, 2014, there were \$0.2 million of unadvanced

commitments on impaired loans. Other liabilities include approximately \$0.2 million for estimated losses attributable to the unadvanced commitments.



Edgar Filing: ENTERPRISE FINANCIAL SERVICES CORP - Form 10-K

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

| (in thousands)                    | December 31, 2014 |              |  | Loans over 90 days past due and still accruing interest | Total    |
|-----------------------------------|-------------------|--------------|--|---|----------|
|                                   | Non-accrual       | Restructured |  |   |          |
| Commercial & Industrial           | \$6,073           | \$—          |  | \$—   | \$6,073  |
| Real Estate:                      |                   |              |  |   |          |
| Commercial - Investor Owned       | 4,597             | 590          |  | —   | 5,187    |
| Commercial - Owner Occupied       | 519               | 770          |  | —   | 1,289    |
| Construction and Land Development | 7,348             | —            |  | —   | 7,348    |
| Residential                       | 3,093             | —            |  | —   | 3,093    |
| Consumer & Other                  | —                 | —            |  | —   | —        |
| Total                             | \$21,630          | \$1,360      |  | \$—   | \$22,990 |

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

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

| (in thousands, except for number of loans) | Year ended December 31, 2014 | Year ended December 31, 2014 |   | Year ended December 31, 2013 | Year ended December 31, 2013 |   |
|--|------------------------------|------------------------------|---|------------------------------|------------------------------|---|
|  |                              | Number of Loans              | Pre-Modification Outstanding Recorded Balance |                              | Number of Loans              | Pre-Modification Outstanding Recorded Balance |
| Commercial & Industrial                    | 2                            | \$ 658                       | \$ 658  | —                            | \$ —                         | \$ —  |
| Real Estate:                               |                              |                              |   |                              |                              |   |
| Commercial - Owner Occupied                | 3                            | 1,649                        | 1,399   | 1                            | 207                          | 207   |
| Commercial - Investor Owned                | 1                            | 603                          | 603   | 1                            | 678                          | 678   |
| Construction and Land Development          | 1                            | 2,827                        | 2,827   | —                            | —                            | —   |
| Residential                                | 1                            | 125                          | 125   | 2                            | 2,308                        | 2,308   |
| Consumer & Other                           | —                            | —                            | —   | —                            | —                            | —   |

Edgar Filing: ENTERPRISE FINANCIAL SERVICES CORP - Form 10-K

|       |   |          |          |   |          |          |
|-------|---|----------|----------|---|----------|----------|
| Total | 8 | \$ 5,862 | \$ 5,612 | 4 | \$ 3,193 | \$ 3,193 |
|-------|---|----------|----------|---|----------|----------|

83

---

The restructured Portfolio loans primarily resulted from interest rate concessions and changing the terms of the loans. As of December 31, 2014, the Company allocated \$0.3 million of specific reserves to the loans that have been restructured.

The recorded investment by category for Portfolio loans that have been restructured and subsequently defaulted during 2014 and 2013 is as follows:

| (in thousands, except for number of loans) | Year ended December 31, 2014 |                  | Year ended December 31, 2013 |                  |
|--|------------------------------|------------------|------------------------------|------------------|
|  | Number of Loans              | Recorded Balance | Number of Loans              | Recorded Balance |
| Commercial & Industrial                    | —                            | \$—              | —                            | \$—              |
| Real Estate:                               |                              |                  |                              |                  |
| Commercial - Owner Occupied                | —                            | —                | 1                            | 192              |
| Commercial - Investor Owned                | —                            | —                | —                            | —                |
| Construction and Land Development          | 1                            | 241              | —                            | —                |
| Residential                                | —                            | —                | 2                            | 1,579            |
| Consumer & Other                           | —                            | —                | —                            | —                |
| Total                                      | 1                            | \$241            | 3                            | \$1,771          |

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

| (in thousands)                    | December 31, 2014   |                          |                | Current     | Total       |
|-----------------------------------|---------------------|--------------------------|----------------|-------------|-------------|
|                                   | 30-89 Days Past Due | 90 or More Days Past Due | Total Past Due |             |             |
| Commercial & Industrial           | \$3,059             | \$232                    | \$3,291        | \$1,266,968 | \$1,270,259 |
| Real Estate:                      |                     |                          |                |             |             |
| Commercial - Owner Occupied       | 766                 | 496                      | 1,262          | 356,241     | 357,503     |
| Commercial - Investor Owned       | 261                 | 4,450                    | 4,711          | 408,315     | 413,026     |
| Construction and Land Development | 702                 | 2,524                    | 3,226          | 141,547     | 144,773     |
| Residential                       | 168                 | —                        | 168            | 185,084     | 185,252     |
| Consumer & Other                  | 8                   | —                        | 8              | 63,095      | 63,103      |
| Total                             | \$4,964             | \$7,702                  | \$12,666       | \$2,421,250 | \$2,433,916 |

  

| (in thousands)                    | December 31, 2013   |                          |                | Current     | Total       |
|-----------------------------------|---------------------|--------------------------|----------------|-------------|-------------|
|                                   | 30-89 Days Past Due | 90 or More Days Past Due | Total Past Due |             |             |
| Commercial & Industrial           | \$229               | \$—                      | \$229          | \$1,041,347 | \$1,041,576 |
| Real Estate:                      |                     |                          |                |             |             |
| Commercial - Owner Occupied       | —                   | 428                      | 428            | 341,203     | 341,631     |
| Commercial - Investor Owned       | —                   | 6,132                    | 6,132          | 431,556     | 437,688     |
| Construction and Land Development | 464                 | 7,344                    | 7,808          | 109,224     | 117,032     |
| Residential                       | 237                 | 213                      | 450            | 158,077     | 158,527     |
| Consumer & Other                  | —                   | —                        | —              | 40,859      | 40,859      |

|       |       |          |          |             |             |
|-------|-------|----------|----------|-------------|-------------|
| Total | \$930 | \$14,117 | \$15,047 | \$2,122,266 | \$2,137,313 |
|-------|-------|----------|----------|-------------|-------------|

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

Grades 1, 2, and 3 – 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 December 31, 2014 and December 31, 2013 is as follows:

| (in thousands)                    | December 31, 2014 |           |                 |              |             |
|-----------------------------------|-------------------|-----------|-----------------|--------------|-------------|
|                                   | Pass (1-6)        | Watch (7) | Substandard (8) | Doubtful (9) | Total       |
| Commercial & Industrial           | \$1,167,751       | \$62,315  | \$40,193        | \$—          | \$1,270,259 |
| Real Estate:                      |                   |           |                 |              |             |
| Commercial - Owner Occupied       | 334,347           | 18,025    | 5,131           | —            | 357,503     |
| Commercial - Investor Owned       | 372,818           | 24,088    | 16,120          | —            | 413,026     |
| Construction and Land Development | 123,260           | 12,993    | 8,520           | —            | 144,773     |
| Residential                       | 168,543           | 11,012    | 5,697           | —            | 185,252     |
| Consumer & Other                  | 62,711            | 51        | 341             | —            | 63,103      |
| Total                             | \$2,229,430       | \$128,484 | \$76,002        | \$—          | \$2,433,916 |

| (in thousands)                    | December 31, 2013 |           |                 |              | Total       |
|-----------------------------------|-------------------|-----------|-----------------|--------------|-------------|
|                                   | Pass (1-6)        | Watch (7) | Substandard (8) | Doubtful (9) |             |
| Commercial & Industrial           | \$977,199         | \$40,265  | \$23,934        | \$178        | \$1,041,576 |
| Real Estate:                      |                   |           |                 |              |             |
| Commercial - Owner Occupied       | 306,321           | 26,500    | 8,810           | —            | 341,631     |
| Commercial - Investor Owned       | 368,433           | 42,227    | 27,028          | —            | 437,688     |
| Construction and Land Development | 87,812            | 17,175    | 11,582          | 463          | 117,032     |
| Residential                       | 143,613           | 8,240     | 6,674           | —            | 158,527     |
| Consumer & Other                  | 40,852            | 3         | 4               | —            | 40,859      |
| Total                             | \$1,924,230       | \$134,410 | \$78,032        | \$641        | \$2,137,313 |

## NOTE 7 - PURCHASE CREDIT IMPAIRED ("PCI") LOANS

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

| (in thousands)                    | December 31, 2014            |                               | December 31, 2013            |                               |
|-----------------------------------|------------------------------|-------------------------------|------------------------------|-------------------------------|
|                                   | Weighted-Average Risk Rating | Recorded Investment PCI Loans | Weighted-Average Risk Rating | Recorded Investment PCI Loans |
| Real estate loans:                |                              |                               |                              |                               |
| Construction and land development | 6.16                         | \$7,740                       | 6.84                         | \$14,325                      |
| Commercial - Investor Owned       | 7.07                         | 39,066                        | 6.81                         | 48,146                        |
| Commercial - Owner Occupied       | 6.35                         | 22,695                        | 6.75                         | 32,525                        |
| Residential real estate           | 5.54                         | 25,121                        | 5.92                         | 34,498                        |
| Total real estate loans           |                              | 94,622                        |                              | 129,494                       |
| Commercial and industrial         | 6.57                         | 4,012                         | 6.87                         | 9,271                         |
| Consumer and other                | 5.39                         | 469                           | 6.47                         | 1,773                         |
| Purchase credit impaired loans    |                              | \$99,103                      |                              | \$140,538                     |

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

| (in thousands)                    | December 31, 2014   |                          |                | Current   | Total     |
|-----------------------------------|---------------------|--------------------------|----------------|-----------|-----------|
|                                   | 30-89 Days Past Due | 90 or More Days Past Due | Total Past Due |           |           |
| Commercial & Industrial           | \$—                 | \$16                     | \$16           | \$3,996   | \$4,012   |
| Real estate:                      |                     |                          |                |           |           |
| Commercial - Owner Occupied       | —                   | 2,759                    | 2,759          | 19,936    | 22,695    |
| Commercial - Investor Owned       | 878                 | 6,484                    | 7,362          | 31,704    | 39,066    |
| Construction and Land Development | 774                 | —                        | 774            | 6,966     | 7,740     |
| Residential                       | 2,020               | 1,451                    | 3,471          | 21,650    | 25,121    |
| Consumer & Other                  | —                   | 12                       | 12             | 457       | 469       |
| Total                             | \$3,672             | \$10,722                 | \$14,394       | \$84,709  | \$99,103  |
| (in thousands)                    | December 31, 2013   |                          |                | Current   | Total     |
|                                   | 30-89 Days Past Due | 90 or More Days Past Due | Total Past Due |           |           |
| Commercial & Industrial           | \$397               | \$573                    | \$970          | \$8,301   | \$9,271   |
| Real Estate:                      |                     |                          |                |           |           |
| Commercial - Owner Occupied       | 255                 | 6,595                    | 6,850          | 25,675    | 32,525    |
| Commercial - Investor Owned       | 5,143               | 3,167                    | 8,310          | 39,836    | 48,146    |
| Construction and Land Development | 32                  | 4,198                    | 4,230          | 10,095    | 14,325    |
| Residential                       | 639                 | 5,276                    | 5,915          | 28,583    | 34,498    |
| Consumer & Other                  | —                   | —                        | —              | 1,773     | 1,773     |
| Total                             | \$6,466             | \$19,809                 | \$26,275       | \$114,263 | \$140,538 |





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

| (in thousands)  | Contractual<br>Cashflows | Non-accretable<br>Difference | Accretable<br>Yield | Carrying<br>Amount |
|---|--------------------------|------------------------------|---------------------|--------------------|
| Balance January 1, 2014   | \$266,068                | \$87,438                     | \$53,530            | \$125,100          |
| Principal reductions and interest payments                          | (35,718                  | ) —                          | —                   | (35,718 )          |
| Accretion of loan discount  | —                        | —                            | (15,747             | ) 15,747           |
| Changes in contractual and expected cash flows due to remeasurement | (2,170                   | ) (7,403                     | ) (3,234            | ) 8,467            |
| Reductions due to disposals   | (50,035                  | ) (14,316                    | ) (5,816            | ) (29,903 )        |
| Balance December 31, 2014   | \$178,145                | \$65,719                     | \$28,733            | \$83,693           |
| Balance January 1, 2013   | \$386,966                | \$118,627                    | \$78,768            | \$189,571          |
| Principal reductions and interest payments                          | (55,736                  | ) —                          | —                   | (55,736 )          |
| Accretion of loan discount  | —                        | —                            | (25,320             | ) 25,320           |
| Changes in contractual and expected cash flows due to remeasurement | 20,358                   | (2,667                       | ) 15,538            | 7,487              |
| Reductions due to disposals   | (85,520                  | ) (28,522                    | ) (15,456           | ) (41,542 )        |
| Balance December 31, 2013   | \$266,068                | \$87,438                     | \$53,530            | \$125,100          |

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

A summary of activity in the FDIC loss share receivable for the twelve months ended December 31, 2014 and 2013 is as follows:

| (in thousands)   | December 31,<br>2014 | December 31,<br>2013 |
|--|----------------------|----------------------|
| Balance at beginning of period   | \$34,319             | \$61,475             |
| Adjustments not reflected in income:                                       |                      |                      |
| Cash received from the FDIC for covered assets                             | (9,605               | ) (10,981 )          |
| FDIC reimbursable losses, net  | 459                  | 1,998                |
| Adjustments reflected in income:   |                      |                      |
| Amortization, net  | (6,342               | ) (13,931 )          |
| Loan impairment  | 841                  | 3,977                |
| Reductions for payments on covered assets in excess of expected cash flows | (3,806               | ) (8,219 )           |
| Balance at end of period   | \$15,866             | \$34,319             |

Outstanding customer balances on PCI loans were \$135.3 million and \$201.7 million as of December 31, 2014, and December 31, 2013, respectively.

Due to continued favorable projections in expected cash flows, the Company now anticipates it will be required to pay the FDIC at the end of two of its loss share agreements. Accordingly, a contingent liability of \$2.7 million has been recorded as of December 31, 2014 with \$1.2 million of expense recorded through Other noninterest expense for the



year ended December 31, 2014. See FDIC Loss Share Receivable and Clawback Liability in Note 1 - Summary of Significant Accounting Policies for additional information.

#### NOTE 8 - 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 or speculative purposes.

Using derivative instruments can involve assuming counterparty credit risk to varying degrees. Counterparty credit risk relates to the loss the Company could incur if a counterparty were to default on a derivative contract. Notional amounts of derivative financial instruments do not represent credit risk, and are not recorded in the consolidated balance sheet. The overall credit risk and exposure to individual counterparties is monitored. The Company does not anticipate nonperformance by any counterparties. The amount of counterparty credit exposure is the unrealized gains in excess of collateral pledged, if any, on such derivative contracts along with the value of foreign exchange forward contracts. At December 31, 2014, the Company had \$0.9 million of counterparty credit exposure on derivatives. This counterparty risk is considered as part of underwriting and on-going monitoring policies. At December 31, 2014 and 2013, the Company had pledged cash of \$1.0 million and \$1.0 million, respectively, as collateral in connection with interest rate swap agreements.

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

**Economic hedge of state tax credits.** The Company enters into interest rate caps in order to economically hedge changes in fair value of the State tax credits held for sale. See Note 20 - Fair Value Measurements for further discussion of the fair value of the state tax credits.

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

| (in thousands)              | Notional Amount                    |                      | Asset Derivatives<br>(Other Assets)<br>Fair Value |                      | Liability Derivatives<br>(Other Liabilities)<br>Fair Value |                      |
|-----------------------------|------------------------------------|----------------------|---|----------------------|--|----------------------|
|                             | December 31,<br>2014               | December 31,<br>2013 | December 31,<br>2014                              | December 31,<br>2013 | December 31,<br>2014                                       | December 31,<br>2013 |
|                             | Non-designated hedging instruments |                      |   |                      |  |                      |
| Interest rate cap contracts | \$23,800                           | \$ 23,800            | \$2   | \$ 10                | \$—  | \$—                  |

The following table shows the location and amount of gains and losses related to derivatives used for risk management purposes that were recorded in the consolidated statements of operations for 2014, 2013 and 2012.

| (in thousands)                     | Location of Gain or (Loss)<br>Recognized in Operations<br>on Derivative | Amount of Gain or (Loss) Recognized in Operations |        |         |
|------------------------------------|---|---|--------|---------|
|                                    |   | 2014  | 2013   | 2012    |
| Non-designated hedging instruments |   |   |        |         |
| Interest rate cap contracts        | Gain on state tax credits, net  | \$(8  | ) \$(3 | ) \$(80 |
| Interest rate swap contracts       | Miscellaneous income  | —   | —      | —       |



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

| (in thousands)               | Notional Amount                    |                      | Asset Derivatives<br>(Other Assets)<br>Fair Value |                      | Liability Derivatives<br>(Other Liabilities)<br>Fair Value |                      |
|------------------------------|------------------------------------|----------------------|---|----------------------|--|----------------------|
|                              | December 31,<br>2014               | December 31,<br>2013 | December 31,<br>2014                              | December 31,<br>2013 | December 31,<br>2014                                       | December 31,<br>2013 |
|                              | Non-designated hedging instruments |                      |   |                      |  |                      |
| Interest rate swap contracts | \$ 141,263                         | \$ 185,213           | \$ 907  | \$ 990               | \$ 907   | \$ 990               |

Changes in the fair value of client-related derivative instruments are recognized currently in operations. The following table shows the location and amount of gains and losses recorded in the consolidated statements of operations for 2014, 2013 and 2012.

| (in thousands)                     | Location of Gain or (Loss)<br>Recognized in Operations<br>on Derivative | Amount of Gain or (Loss) Recognized in Operations<br>on Derivative |          |          |
|------------------------------------|---|--|----------|----------|
|                                    |   | 2014   | 2013     | 2012     |
| Non-designated hedging instruments |   |  |          |          |
| Interest rate swap contracts       | Interest and fees on loans  | \$—  | \$(205 ) | \$(447 ) |

## NOTE 9 - FIXED ASSETS

A summary of fixed assets at December 31, 2014 and 2013, is as follows:

| (in thousands)                                 | December 31, |           |
|--|--------------|-----------|
|  | 2014         | 2013      |
| Land   | \$3,103      | \$3,103   |
| Buildings and leasehold improvements           | 17,170       | 22,529    |
| Furniture, fixtures and equipment              | 3,750        | 11,950    |
| Capitalized software                           | 735          | 1,375     |
|  | 24,758       | 38,957    |
| Less accumulated depreciation and amortization | 10,005       | 20,777    |
| Total fixed assets                             | \$ 14,753    | \$ 18,180 |

Depreciation and amortization of fixed assets included in noninterest expense amounted to \$2.2 million, \$2.8 million, and \$2.5 million in 2014, 2013, and 2012, respectively.

The Company has facilities leased under agreements that expire in various years through 2028. The Company's rent expense totaled \$2.9 million, \$3.0 million, and \$3.1 million in 2014, 2013, and 2012, respectively. Sublease rental income was \$0.2 million, \$0.2 million, and \$0.2 million for 2014, 2013, and 2012, respectively. For leases which renew or are subject to periodic rental adjustments, the monthly rental payments will be adjusted based on current market conditions and rates of inflation.

The future aggregate minimum rental commitments (in thousands) required under the leases are shown below:

| Year       | Amount   |
|------------|----------|
| 2015       | \$2,815  |
| 2016       | 2,812    |
| 2017       | 2,413    |
| 2018       | 2,140    |
| 2019       | 2,130    |
| Thereafter | 9,409    |
| Total      | \$21,719 |

## NOTE 10 - GOODWILL AND INTANGIBLE ASSETS

Goodwill has remained at \$30.3 million as of December 31, 2014, 2013, and 2012. The annual goodwill impairment evaluations in 2014, 2013 and 2012 did not identify any impairment.

The table below presents a summary of the intangible assets for the years ended December 31, 2014 and 2013.

| (in thousands)   | Years ended December 31, |          |
|--|--------------------------|----------|
|  | 2014                     | 2013     |
| Gross core deposit intangible balance, beginning of year | \$9,060                  | \$12,693 |
| Accumulated amortization                                 | (4,896                   | ) (7,275 |
| Core deposit intangible, net, end of year                | \$4,164                  | \$5,418  |



Amortization expense on the core deposit intangibles was \$1.3 million, \$1.6 million, and \$1.9 million for the years ended December 31, 2014, 2013, and 2012, respectively. At December 31, 2014 and 2013, the intangible assets had a weighted average useful life of 10 years.

The following table reflects the expected amortization schedule for the core deposit intangible (in thousands) at December 31, 2014.

| Year       | Core Deposit Intangible |
|------------|-------------------------|
| 2015       | \$1,089                 |
| 2016       | 924                     |
| 2017       | 760                     |
| 2018       | 595                     |
| 2019       | 430                     |
| After 2019 | 366                     |
|            | \$4,164                 |

#### NOTE 11 - MATURITY OF CERTIFICATES OF DEPOSIT

Following is a summary of certificates of deposit maturities at December 31, 2014:

| (in thousands)                             | \$100,000 and Over | Other     | Total     |
|--|--------------------|-----------|-----------|
| Less than 1 year                           | \$255,625          | \$74,169  | \$329,794 |
| Greater than 1 year and less than 2 years  | 55,840             | 28,671    | 84,511    |
| Greater than 2 years and less than 3 years | 7,321              | 8,218     | 15,539    |
| Greater than 3 years and less than 4 years | 47,147             | 12,850    | 59,997    |
| Greater than 4 years and less than 5 years | 11,611             | 3,893     | 15,504    |
| Greater than 5 years                       | —                  | 7         | 7         |
|  | \$377,544          | \$127,808 | \$505,352 |

#### NOTE 12 - SUBORDINATED DEBENTURES

The Company currently has eight unconsolidated statutory business trusts. These trusts issued preferred securities that were sold to third parties. The sole purpose of the trusts was to invest the proceeds in junior subordinated debentures of the Company that have terms identical to the trust preferred securities.



The amounts and terms of each respective issuance at December 31, 2014 and 2013 were as follows:

| (in thousands)                 | Amount   |          | Maturity Date      | Call Date          | Interest Rate              |
|--------------------------------|----------|----------|--------------------|--------------------|----------------------------|
|                                | 2014     | 2013     |                    |                    |                            |
| EFSC Clayco Statutory Trust I  | \$3,196  | \$3,196  | December 17, 2033  | December 17, 2008  | Floats @ 3MO LIBOR + 2.85% |
| EFSC Capital Trust II          | 5,155    | 5,155    | June 17, 2034      | June 17, 2009      | Floats @ 3MO LIBOR + 2.65% |
| EFSC Statutory Trust III       | 11,341   | 11,341   | December 15, 2034  | December 15, 2009  | Floats @ 3MO LIBOR + 1.97% |
| EFSC Clayco Statutory Trust II | 4,124    | 4,124    | September 15, 2035 | September 15, 2010 | Floats @ 3MO LIBOR + 1.83% |
| EFSC Statutory Trust IV        | 10,310   | 10,310   | December 15, 2035  | December 15, 2010  | Floats @ 3MO LIBOR + 1.44% |
| EFSC Statutory Trust V         | 4,124    | 4,124    | September 15, 2036 | September 15, 2011 | Floats @ 3MO LIBOR + 1.60% |
| EFSC Capital Trust VI          | 14,433   | 14,433   | March 30, 2037     | March 30, 2012     | Floats @ 3MO LIBOR + 1.60% |
| EFSC Capital Trust VII         | 4,124    | 4,124    | December 15, 2037  | December 15, 2012  | Floats @ 3MO LIBOR + 2.25% |
| EFSC Capital Trust VIII        | —        | 5,774    | December 15, 2038  | December 15, 2013  | Fixed @ 9%                 |
| Total subordinated debentures  | \$56,807 | \$62,581 |                    |                    |                            |

The subordinated debentures, which are the sole assets of the trusts, are subordinate and junior in right of payment to all present and future senior and subordinated indebtedness and certain other financial conditions of the Company. The Company fully and unconditionally guarantees each trust's securities obligations. Under current regulations, the trust preferred securities are included in Tier 1 capital for regulatory capital purposes, subject to certain limitations.

The securities are redeemable in whole or in part on or after their respective call dates. Mandatory redemption dates may be shortened if certain conditions are met. The securities are classified as subordinated debentures in the Company's consolidated balance sheets. Interest on the subordinated debentures held by the trusts is recorded as interest expense in the Company's consolidated statements of operations. The Company's investment of \$1.7 million at December 31, 2014, in these trusts is included in other investments in the consolidated balance sheets.

On August 15, 2013, the Company converted \$20.0 million of its trust preferred in EFSC Capital Trust VIII into 1.2 million shares of common stock. The Company issued 25,060 shares of additional common stock as an inducement for the conversion. The inducement resulted in a \$0.4 million expense recorded in Other noninterest expense during 2013. On March 14, 2014, the remaining \$5.0 million trust preferred securities issued through EFSC Capital Trust VIII were converted into 287,852 shares of the Company's common stock at a conversion price of \$17.37.

#### NOTE 13 - FEDERAL HOME LOAN BANK ADVANCES

FHLB advances are collateralized by 1-4 family residential real estate loans, business loans and certain commercial real estate loans. At December 31, 2014 and 2013, the carrying value of the loans pledged to the FHLB of Des Moines was \$649.7 million and \$540.7 million, respectively. The secured line of credit had availability of approximately \$211.3 million at December 31, 2014.

Enterprise also has a \$9.6 million investment in the capital stock of the FHLB of Des Moines and a \$0.3 million investment in the capital stock of the FHLB of San Francisco at December 31, 2014.

The following table summarizes the type, maturity and rate of the Company's FHLB advances at December 31:

| (in thousands)                         | Term        | 2014                |               | 2013                |               | Weighted Rate |
|--|-------------|---------------------|---------------|---------------------|---------------|---------------|
|  |             | Outstanding Balance | Weighted Rate | Outstanding Balance | Weighted Rate |               |
| Long term non-amortizing fixed advance | 2 - 3 years | —                   | —             | % —                 | —             | %             |
| Long term non-amortizing fixed advance | 3 - 4 years | —                   | —             | % 50,000            | 3.17          | %             |
| Long term non-amortizing fixed advance | 4 - 5 years | —                   | —             | % —                 | —             | %             |
| Total Federal Home Loan Bank Advances  |             | \$—                 | —             | % \$50,000          | 3.17          | %             |

In December 2014, the Company prepaid the remaining \$50 million of FHLB advances with a weighted average interest rate of 3.17%, and a maturity of 3 years, and incurred a prepayment penalty of \$2.9 million for asset/liability management purposes. In December 2013, the Company prepaid \$30.0 million of FHLB advances with a weighted average interest rate of 4.09%, and a maturity of 3 years, and incurred a prepayment penalty of \$2.6 million. At December 31, 2014, the Company had \$144.0 million of outstanding short term advances with a weighted average interest rate of 0.28%. In addition to the above advances, at December 31, 2014, the Company used \$12.2 million of collateral value to secure confirming letters of credit for public unit deposits and industrial development bonds.

#### NOTE 14 - OTHER BORROWINGS AND NOTES PAYABLE

A summary of other borrowings is as follows:

| (in thousands)                               | December 31, |           |
|--|--------------|-----------|
|  | 2014         | 2013      |
| Securities sold under repurchase agreements  | \$230,373    | \$200,021 |
| Secured borrowings                           | 3,810        | 3,810     |
| Total  | \$234,183    | \$203,831 |
| Average balance during the year              | \$184,964    | \$197,556 |
| Maximum balance outstanding at any month-end | 234,183      | 214,439   |
| Average interest rate during the year        | 0.32         | % 0.32    |
| Average interest rate at December 31         | 0.30         | % 0.31    |

#### Federal Reserve line

The Bank also has a line with the Federal Reserve Bank of St. Louis which provides additional liquidity to the Company. As of December 31, 2014, \$663.5 million was available under this line. This line is secured by a pledge of certain eligible loans aggregating \$805.2 million. There were no amounts withdrawn under the Federal Reserve line of credit as of December 31, 2014.

## Term Loan

On November 6, 2012, the Company entered into a \$12.0 million unsecured term loan agreement ("Term Loan") due on November 6, 2015, with another bank with the proceeds being used to redeem the Company's preferred stock held by the U.S. Treasury. A summary of the Term Loan is as follows:

| (in thousands)                                 | December 31, |          |  |   |
|--|--------------|----------|--|---|
|  | 2014         | 2013     |  |   |
| Term Loan                                      | \$5,700      | \$10,500 |  |   |
| Average balance during the year                | \$6,464      | \$11,241 |  |   |
| Maximum balance outstanding at any month-end   | 6,900        | 11,700   |  |   |
| Weighted average interest rate during the year | 2.99         | % 3.52   |  | % |
| Average interest rate at December 31           | 2.94         | % 3.44   |  | % |

The Term Loan is subject to ongoing compliance with a number of customary affirmative and negative covenants as well as specified financial covenants. The Company believes it was in compliance with all relevant covenants under the Term Loan at December 31, 2014.

## NOTE 15 - LITIGATION AND OTHER CONTINGENCIES

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

## NOTE 16 - REGULATORY MATTERS

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the following table) of total and Tier 1 capital to risk-weighted assets, and of Tier 1 capital to average assets. Management believes, as of December 31, 2014 and 2013, that the Bank met all capital adequacy requirements to which it is subject.

As of December 31, 2014 and 2013, the Bank was categorized as "well capitalized" under the regulatory framework for prompt corrective action. To be categorized as "well capitalized" the Bank must maintain minimum total risk-based, Tier 1 risk-based and Tier 1 leverage ratios as set forth in the table.

The actual capital amounts and ratios are presented in the table below:

| (in thousands)                           | Actual    |       | For Capital Adequacy Purposes |       | To Be Well Capitalized Under Applicable Action Provisions |       |
|--|-----------|-------|-------------------------------|-------|---|-------|
|  | Amount    | Ratio | Amount                        | Ratio | Amount  | Ratio |
| As of December 31, 2014:                 |           |       |                               |       |   |       |
| Total Capital (to Risk Weighted Assets)  |           |       |                               |       |   |       |
| Enterprise Financial Services Corp       | \$369,868 | 13.40 | % \$220,858                   | 8.00  | % \$—   | — %   |
| Enterprise Bank & Trust                  | 343,334   | 12.51 | 219,645                       | 8.00  | 274,556   | 10.00 |
| Tier 1 Capital (to Risk Weighted Assets) |           |       |                               |       |   |       |
| Enterprise Financial Services Corp       | 335,221   | 12.14 | 110,429                       | 4.00  | —   | —     |
| Enterprise Bank & Trust                  | 308,874   | 11.25 | 109,823                       | 4.00  | 164,734   | 6.00  |
| Tier 1 Capital (to Average Assets)       |           |       |                               |       |   |       |
| Enterprise Financial Services Corp       | 335,221   | 10.48 | 96,000                        | 3.00  | —   | —     |
| Enterprise Bank & Trust                  | 308,874   | 9.71  | 95,411                        | 3.00  | 159,018   | 5.00  |
| As of December 31, 2013:                 |           |       |                               |       |   |       |
| Total Capital (to Risk Weighted Assets)  |           |       |                               |       |   |       |
| Enterprise Financial Services Corp       | \$339,433 | 13.78 | % \$197,088                   | 8.00  | % \$—   | — %   |
| Enterprise Bank & Trust                  | 318,149   | 13.00 | 195,802                       | 8.00  | 244,752   | 10.00 |
| Tier 1 Capital (to Risk Weighted Assets) |           |       |                               |       |   |       |
| Enterprise Financial Services Corp       | 308,490   | 12.52 | 98,544                        | 4.00  | —   | —     |
| Enterprise Bank & Trust                  | 287,405   | 11.74 | 97,901                        | 4.00  | 146,851   | 6.00  |
| Tier 1 Capital (to Average Assets)       |           |       |                               |       |   |       |
| Enterprise Financial Services Corp       | 308,490   | 9.94  | 93,121                        | 3.00  | —   | —     |
| Enterprise Bank & Trust                  | 287,405   | 9.31  | 92,587                        | 3.00  | 154,312   | 5.00  |

#### NOTE 17 - COMPENSATION PLANS

The Company has adopted share-based compensation plans to reward and provide long-term incentive for directors and key employees of the Company. These plans provide for the granting of stock, stock options, stock-settled stock appreciation rights ("SSARs"), and restricted stock units ("RSUs"), as designated by the Company's Board of Directors upon the recommendation of the Compensation Committee. The Company uses authorized and unissued shares to satisfy share award exercises. At December 31, 2014, there were 838,924 shares available for grant under the various share-based compensation plans.

Total share-based compensation expense that was charged against income was \$2.9 million, \$5.0 million, and \$2.5 million for the years ended December 31, 2014, 2013, and 2012 respectively. The total income tax benefit/(expense) recognized in additional paid in capital for share-based compensation arrangements was \$0.2 million, \$0.2 million, and \$0.1 million for the years ended December 31, 2014, 2013, and 2012, respectively.

#### Employee Stock Options and Stock-settled Stock Appreciation Rights

In determining compensation cost for stock options and SSARs, the Black-Scholes option-pricing model is used to estimate the fair value on date of grant. There were no grants of employee stock options or SSARs during the years ended December 31, 2014, 2013, or 2012.



Stock options have been granted to key employees with exercise prices equal to the market price of the Company's common stock at the date of grant and 10-year contractual terms. Stock options have a vesting schedule of three to five years. The SSARs are subject to continued employment, have a 10-year contractual term and vest ratably over five years. Neither stock options nor SSARs carry voting or dividend rights until exercised. At December 31, 2014, there was less than \$0.1 million of total unrecognized compensation cost related to SSARs which is expected to be recognized in 2015. Various information related to the stock options and SSARs is shown below.

|   |       |         |         |
|---|-------|---------|---------|
| (in thousands)  | 2014  | 2013    | 2012    |
| Compensation expense                                    | \$103 | \$213   | \$478   |
| Intrinsic value of option exercises on date of exercise | \$226 | \$300   | \$327   |
| Cash received from the exercise of stock options        | \$149 | \$2,040 | \$1,291 |

Following is a summary of the employee stock option and SSAR activity for 2014.

| (Dollars in thousands, except share data) | Shares   | Weighted Average Exercise Price | Weighted Average Remaining Contractual Term | Aggregate Intrinsic Value |
|---|----------|---------------------------------|---|---------------------------|
| Outstanding at January 1, 2014            | 463,969  | \$18.73                         |   |                           |
| Granted                                   | —        | —                               |   |                           |
| Exercised                                 | (55,500) | ) 14.64                         |   |                           |
| Forfeited                                 | (6,888)  | ) 22.00                         |   |                           |
| Outstanding at December 31, 2014          | 401,581  | \$19.24                         | 3.7 years                                   | \$192                     |
| Exercisable at December 31, 2014          | 383,581  | \$19.66                         | 3.6 years                                   | \$27                      |

#### Restricted Stock Units

The Company awards nonvested stock, in the form of RSUs to employees. RSUs are subject to continued employment and vest ratably over three to five years. RSUs do not carry voting or dividend rights until vested. Sales of the units are restricted prior to vesting. Various information related to the RSUs is shown below.

|  |           |           |           |
|--|-----------|-----------|-----------|
| (in thousands)   | 2014      | 2013      | 2012      |
| Compensation expense   | \$945     | \$1,142   | \$658     |
| Total fair value at vesting date                               | 913       | 828       | 660       |
| Total unrecognized compensation cost for nonvested stock units | 1,462     | 2,168     | 1,256     |
| Expected years to recognize unearned compensation              | 2.7 years | 3.6 years | 4.0 years |

A summary of the status of the Company's RSU awards as of December 31, 2014 and changes during the year then ended is presented below.

|                                  | Shares   | Weighted Average Grant Date Fair Value |
|----------------------------------|----------|--|
| Outstanding at January 1, 2014   | 215,926  | \$13.64                                |
| Granted                          | 3,000    | 16.65                                  |
| Vested                           | (67,552) | ) 13.51                                |
| Forfeited                        | (11,525) | ) 13.14                                |
| Outstanding at December 31, 2014 | 139,849  | \$13.81                                |





### Stock Plan for Non-Management Directors

The Company has adopted a Stock Plan for Non-Management Directors, which provides for issuing up to 200,000 shares of common stock to non-employee directors as compensation in lieu of cash. At December 31, 2014, there were 60,629 shares of stock available for issuance under the Stock Plan for Non-Management Directors.

Various information related to the Director Plan is shown below:

|                             | 2014    | 2013    | 2012    |
|-----------------------------|---------|---------|---------|
| Shares issued               | 23,135  | 16,990  | 18,410  |
| Weighted average fair value | \$19.20 | \$15.40 | \$14.00 |
| Compensation expense        | \$329   | \$262   | \$257   |

### Employee Stock Issuance

Restricted stock was issued to certain key employees as part of their compensation. The restricted stock may be in the form of a one-time award or paid in pro rata installments. The stock is restricted for at least 2 years and upon issuance may be fully vested or vest over 5 years. The Company recognized \$0.1 million, \$0.6 million, and \$0.2 million of stock-based compensation expense for the shares issued to the employees in 2014, 2013, and 2012, respectively. The Company issued 34,034, 37,943, and 71,899 shares in 2014, 2013, and 2012, respectively.

The Company has entered into long-term incentive agreements with certain key employees. These open awards are conditioned on certain performance criteria and market criteria measured against a group of peer banks over a 3 year period for each grant. The amount of the awards are determined at the end of the 3 year vesting period. In February 2015, the Company issued 122,470 shares to employees upon completion of the 2012-2014 performance cycle. In February 2014, the Company issued 146,700 shares to employees upon completion of the 2011-2013 performance cycle. The 2013 and 2014 grants are not yet determinable. The Company recorded \$1.8 million, \$3.2 million and \$1.3 million of stock-based compensation expense for these awards during 2014, 2013 and 2012, respectively.

### 401(k) plans

The Company has a 401(k) savings plan which covers substantially all full-time employees over the age of 21. The amount charged to expense for the Company's contributions to the plan was \$1.4 million, \$1.2 million and \$1.2 million for 2014, 2013, and 2012, respectively.

## NOTE 18-INCOME TAXES

The components of income tax (benefit) expense for the years ended December 31 are as follows:

| (in thousands)           | Years ended December 31, |          |          |
|--------------------------|--------------------------|----------|----------|
|                          | 2014                     | 2013     | 2012     |
| Current:                 |                          |          |          |
| Federal                  | \$9,399                  | \$24,029 | \$20,984 |
| State and local          | 195                      | 2,890    | 2,085    |
| Deferred                 | 4,277                    | (9,943   | ) (8,535 |
| Total income tax expense | \$13,871                 | \$16,976 | \$14,534 |

A reconciliation of expected income tax expense, computed by applying the statutory federal income tax rate of 35% in 2014, 2013, and 2012 to income before income taxes and the amounts reflected in the consolidated statements of operations is as follows:

| (in thousands)                                     | Years ended December 31, |          |          |
|--|--------------------------|----------|----------|
|  | 2014                     | 2013     | 2012     |
| Income tax expense at statutory rate               | \$14,365                 | \$17,528 | \$14,991 |
| Increase (reduction) in income tax resulting from: |                          |          |          |
| Tax-exempt income, net                             | (857                     | ) (1,128 | ) (853   |
| State and local income taxes, net                  | 741                      | 1,314    | 1,232    |
| Bank-owned life insurance, net                     | (535                     | ) (484   | ) (353   |
| Non-deductible expenses                            | 290                      | 222      | 326      |
| Change in estimated rate for deferred taxes        | —                        | 336      | —        |
| Tax benefits of LIHTC investments, net             | (158                     | ) (204   | ) (211   |
| Other, net   | 25                       | (608     | ) (598   |
| Total income tax expense                           | \$13,871                 | \$16,976 | \$14,534 |

The amount of tax credits and other tax benefits from low-income housing tax credit ("LIHTC") investments recognized during the year were \$1.1 million during each of the years ended December 31, 2014, 2013, and 2012. The amount recognized as a component of income tax expense per the table above was \$0.2 million for each of the years ended December 31, 2014, 2013, and 2012. As of December 31, 2014 and 2013, the carrying value of the investments related to low-income housing tax credits was \$3.2 million and \$4.2 million, respectively. No impairment losses have been recognized from forfeiture or ineligibility of tax credits or other circumstances during the life of any of the investments. As of December 31, 2014, the Company has future capital commitments of \$0.4 million related to low-income housing tax credit investments. The capital commitments are expected to be called between the years 2015 - 2024.

A net deferred income tax asset of \$31.4 million and \$39.4 million is included in other assets in the consolidated balance sheets at December 31, 2014 and 2013, respectively. The tax effect of temporary differences that gave rise to significant portions of the deferred tax assets and deferred tax liabilities is as follows:

| (in thousands)   | Years ended December 31, |          |
|--|--------------------------|----------|
|  | 2014                     | 2013     |
| Deferred tax assets:                                   |                          |          |
| Allowance for loan losses                              | \$17,463                 | \$16,365 |
| Asset purchase tax basis difference, net               | 5,477                    | 16,238   |
| Basis difference on other real estate                  | 516                      | 1,611    |
| Deferred compensation                                  | 4,854                    | 4,604    |
| Goodwill and other intangible assets                   | 9,001                    | 10,799   |
| Accrued compensation                                   | 2,364                    | 2,046    |
| Unrealized losses on securities available for sale     | —                        | 2,672    |
| Other, net   | 979                      | 796      |
| Total deferred tax assets                              | \$40,654                 | \$55,131 |
| Deferred tax liabilities:                              |                          |          |
| FDIC loss guarantee receivable, net                    | \$5,542                  | \$12,280 |
| Unrealized gains on securities available for sale      | 1,091                    | —        |
| State tax credits held for sale, net of economic hedge | 1,051                    | 1,368    |
| Core deposit intangibles                               | 1,595                    | 2,075    |
| Total deferred tax liabilities                         | 9,279                    | 15,723   |
| Net deferred tax asset                                 | \$31,375                 | \$39,408 |

A valuation allowance is provided on deferred tax assets when it is more likely than not that some portion of the assets will not be realized. The Company did not have any valuation allowances for federal income taxes as of December 31, 2014 or 2013. Management believes it is more likely than not that the company will realize the deferred federal tax assets. Due to positive evidence about the Company's ability to generate taxable income in the future, the Company reversed its state valuation allowance in 2012. Accordingly, the Company had no state tax valuation allowance as of December 31, 2014 and 2013.

The Company and its subsidiaries file income tax returns in the federal jurisdiction and in nine states. With few exceptions, the Company is no longer subject to federal, state or local income tax audits by tax authorities for years before 2011. The Company is not currently under audit by any taxing jurisdiction.

The Company recognizes interest and penalties related to uncertain tax positions in income tax expense and classifies such interest and penalties in the liability for unrecognized tax benefits. The amounts accrued for interest and penalties as of December 31, 2014, 2013, and 2012 were not significant.

As of December 31, 2014, the gross amount of unrecognized tax benefits was \$1.9 million and the total amount of net unrecognized tax benefits that would impact the effective tax rate, if recognized, was \$1.3 million. As of December 31, 2013 and 2012, the total amount of the net unrecognized tax benefits that would impact the effective tax rate, if recognized, was \$0.8 million for each of the years. The Company believes it is reasonably possible that the gross amount of unrecognized benefits will be reduced by approximately \$0.6 million as a result of a lapse of statute of limitations in the next 12 months.



The activity in the gross liability for unrecognized tax benefits was as follows:

| (in thousands)   | 2014    | 2013    | 2012    |
|--|---------|---------|---------|
| Balance at beginning of year                                 | \$1,257 | \$1,148 | \$1,057 |
| Additions based on tax positions related to the current year | 401     | 233     | 347     |
| Additions for tax positions of prior years                   | 523     | 53      | 49      |
| Reductions for tax positions of prior years                  | —       | —       | —       |
| Settlements or lapse of statute of limitations               | (297    | ) (177  | ) (305  |
| Balance at end of year                                       | \$1,884 | \$1,257 | \$1,148 |

#### NOTE 19 - COMMITMENTS

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 December 31, 2014, there were \$0.2 million of unadvanced commitments on impaired loans. Other liabilities include approximately \$0.2 million for estimated losses attributable to the unadvanced commitments. At December 31, 2013, there were \$0.1 million of unadvanced commitments on impaired loans.

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

| (in thousands)               | December 31,<br>2014 | December 31,<br>2013 |
|------------------------------|----------------------|----------------------|
| Commitments to extend credit | \$947,424            | \$804,420            |
| Standby letters of credit    | 50,108               | 44,376               |

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments usually have fixed expiration dates or other termination clauses, may have significant usage restrictions, and may require payment of a fee. Of the total commitments to extend credit at December 31, 2014, and December 31, 2013, approximately \$65.9 million and \$50.3 million, respectively, represent fixed rate loan commitments. Since certain of the commitments may expire without being drawn upon or may be revoked, the total commitment amounts do not necessarily represent future cash requirements. The Company evaluates each customer's credit worthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Company upon extension of credit, is based on management's credit evaluation of the borrower. Collateral held varies, but may include accounts receivable, inventory, premises and equipment, and real estate.

Standby letters of credit are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. These standby letters of credit are issued to support contractual obligations of the Company's customers. The credit risk involved in issuing letters of credit is essentially the same as the risk involved in extending

loans to customers. The approximate remaining term of standby letters of credit range from 1 month to 3 years and 2 months at December 31, 2014.

101

---

## NOTE 20 - FAIR VALUE MEASUREMENTS

The fair value of an asset or liability is the price that would be received to sell that asset or paid to transfer that liability in an orderly transaction occurring in the principal market (or most advantageous market in the absence of a principal market) for such asset or liability. In estimating fair value, the Company utilizes valuation techniques that are consistent with the market approach, the income approach and/or the cost approach. Such valuation techniques are consistently applied. Inputs to valuation techniques include the assumptions that market participants would use in pricing an asset or liability. ASC Topic 820, "Fair Value Measurements and Disclosures," establishes a fair value hierarchy for valuation inputs that gives the highest priority to quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The fair value hierarchy is as follows:

Level 1 Inputs - Unadjusted quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.

Level 2 Inputs - Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. These might include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability (such as interest rates, volatilities, prepayment speeds, credit risks, etc.) or inputs that are derived principally from or corroborated by market data by correlation or other means.

Level 3 Inputs - Unobservable inputs for determining the fair values of assets or liabilities that reflect an entity's own assumptions about the assumptions that market participants would use in pricing the assets or liabilities.

Edgar Filing: ENTERPRISE FINANCIAL SERVICES CORP - Form 10-K

Fair value on a recurring basis

The following table summarizes financial instruments measured at fair value on a recurring basis as of December 31, 2014 and 2013, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value.

| (in thousands)                                       | December 31, 2014  |   |   | Total Fair Value |
|--|--|---|---|------------------|
|  | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |                  |
| <b>Assets</b>  |  |   |   |                  |
| Securities available for sale                        |  |   |   |                  |
| Obligations of U.S. Government-sponsored enterprises | \$—  | \$91,826                                      | \$—                                       | \$91,826         |
| Obligations of states and political subdivisions     | —  | 31,822  | 3,059                                     | 34,881           |
| Residential mortgage-backed securities               | —  | 273,439                                       | —   | 273,439          |
| Total securities available for sale                  | \$—  | \$397,087                                     | \$3,059                                   | \$400,146        |
| State tax credits held for sale                      | —  | —   | 11,689                                    | 11,689           |
| Derivative financial instruments                     | —  | 909   | —   | 909              |
| Total assets   | \$—  | \$397,996                                     | \$14,748                                  | \$412,744        |
| <b>Liabilities</b>                                   |  |   |   |                  |
| Derivative financial instruments                     | \$—  | \$907   | \$—                                       | \$907            |
| Total liabilities                                    | \$—  | \$907   | \$—                                       | \$907            |
| <br>   |  |   |   |                  |
| (in thousands)                                       | December 31, 2013  |   |   | 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 | \$—  | \$93,530                                      | \$—                                       | \$93,530         |
| Obligations of states and political subdivisions     | —  | 45,903  | 3,040                                     | 48,943           |
| Residential mortgage-backed securities               | —  | 292,114                                       | —   | 292,114          |
| Total securities available for sale                  | \$—  | \$431,547                                     | \$3,040                                   | \$434,587        |
| State tax credits held for sale                      | —  | —   | 16,491                                    | 16,491           |
| Derivative financial instruments                     | —  | 1,000   | —   | 1,000            |
| Total assets   | \$—  | \$432,547                                     | \$19,531                                  | \$452,078        |
| <b>Liabilities</b>                                   |  |   |   |                  |
| Derivative financial instruments                     | \$—  | \$990   | \$—                                       | \$990            |
| Total liabilities                                    | \$—  | \$990   | \$—                                       | \$990            |



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 December 31, 2014, Level 3 securities available for sale consist primarily of three Auction Rate Securities that are valued based on the securities' estimated cash flows, yields of comparable securities, and live trading levels.

103

---

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

State tax credits held for sale. At December 31, 2014, of the \$38.3 million of state tax credits held for sale on the consolidated balance sheet, approximately \$11.7 million were carried at fair value. The remaining \$26.6 million of state tax credits were accounted for at cost. The Company elected not to account for the state tax credits purchased since 2010 at fair value in order to limit the volatility of the fair value changes in our consolidated statements of operations.

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.

Economically, the Company equates the state tax credits to a fixed rate loan. After considering various risks, such as credit risk, compliance risk, and recapture risk, management concluded the state tax credits are equivalent to a fixed rate loan priced at Prime minus 75 basis points. When pricing a fixed rate loan, most banks utilize the Prime-based swap curve, which is based on the LIBOR swap curve plus a prime equivalent spread of 265 to 285 basis points depending on market pricing and the maturity of the underlying loan. The Prime-based swap curve is available daily on Bloomberg or other national pricing services. As a result, at December 31, 2014 and 2013, management concluded the spread of 205 basis points to the LIBOR curve should be utilized in the fair value calculation.

At December 31, 2014, the discount rates utilized in our state tax credits fair value calculation ranged from 2.30% to 4.82%. Resulting changes in the fair value of the state tax credits held for sale decreased Gain on state tax credits, net in the consolidated statement of operations by \$0.9 million for the year ended December 31, 2014.

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 December 31, 2014 and 2013.

Purchases, sales, issuances and settlements. There were no Level 3 purchases during the year ended December 31, 2014.

Transfers in and/or out of Level 3. There were no transfers in and/or out of Level 3 for the years ending December 31, 2014 and 2013.

| (in thousands)  | Securities available for sale, at fair value |         |
|---|--|---------|
|   | Years ended December 31,                     |         |
|   | 2014   | 2013    |
| Beginning balance   | \$3,040                                      | \$3,049 |
| Total gains (losses):   |  |         |
| Included in other comprehensive income  | 19   | (9 )    |
| Purchases, sales, issuances and settlements:  |  |         |
| Purchases   | —  | —       |
| Transfer in and/or out of Level 3   | —  | —       |
| Ending balance  | \$3,059                                      | \$3,040 |
| Change in unrealized gains (losses) relating to assets still held at the reporting date | \$19   | \$(9 )  |

| (in thousands)   | State tax credits held for sale, at fair value |              |
|--|--|--------------|
|  | Years ended December 31,                       |              |
|  | 2014   | 2013         |
| Beginning balance  | \$16,491                                       | \$23,020     |
| Total gains:   |  |              |
| Included in earnings   | 558  | 564          |
| Purchases, sales, issuances and settlements:                                   |  |              |
| Sales  | (5,360   | ) (7,093 )   |
| Ending balance   | \$11,689                                       | \$16,491     |
| Change in unrealized gains relating to assets still held at the reporting date | \$(868   | ) \$(1,317 ) |

## Fair value on a non-recurring basis

Certain financial assets and financial liabilities are measured at fair value on a non-recurring basis; that is, the instruments are not measured at fair value on an ongoing basis but are subject to fair value adjustments in certain circumstances (for example, when there is evidence of impairment).

**Impaired loans.** Impaired loans are included as Portfolio loans on the Company's consolidated balance sheets with amounts specifically reserved for credit impairment in the Allowance for loan losses. On a quarterly basis, fair value adjustments are recorded on impaired loans to account for (1) partial write-downs that are based on the current appraised or market-quoted value of the underlying collateral or (2) the full charge-off of the loan carrying value. In some cases, the properties for which market quotes or appraised values have been obtained are located in areas where comparable sales data is limited, outdated, or unavailable. In addition, the Company may adjust the valuations based on other relevant market conditions or information. Accordingly, fair value estimates, including those obtained from real estate brokers or other third-party consultants, for collateral-dependent impaired loans are classified in Level 3 of the valuation hierarchy.

**Other Real Estate.** These assets are reported at the lower of the loan carrying amount at foreclosure or fair value. Fair value is based on third party appraisals of each property and the Company's judgment of other relevant market conditions. These are considered Level 3 inputs.

The following table presents financial instruments and non-financial assets measured at fair value on a non-recurring basis as of December 31, 2014 and 2013.

| (in thousands)    | December 31, 2014       |  |  |   |  |
|-------------------|-------------------------|--|--|---|--|
|                   | (1)<br>Total Fair Value | (1)<br>Quoted Prices in<br>Active<br>Markets for<br>Identical<br>Assets<br>(Level 1) | (1)<br>Significant<br>Other<br>Observable<br>Inputs<br>(Level 2) | (1)<br>Significant<br>Unobservable<br>Inputs<br>(Level 3) | Total (losses)<br>gains for the year<br>ended<br>December 31, 2014 |
| Impaired loans    | \$6,726                 | \$—  | \$—  | \$6,726   | \$(5,556)  |
| Other real estate | 3,788                   | —  | —  | 3,788   | (696)  |
| Total             | \$10,514                | \$—  | \$—  | \$10,514  | \$(6,252)  |
| (in thousands)    | December 31, 2013       |  |  |   |  |
|                   | (1)<br>Total Fair Value | (1)<br>Quoted Prices in<br>Active<br>Markets for<br>Identical<br>Assets<br>(Level 1) | (1)<br>Significant<br>Other<br>Observable<br>Inputs<br>(Level 2) | (1)<br>Significant<br>Unobservable<br>Inputs<br>(Level 3) | Total (losses)<br>gains for the year<br>ended<br>December 31, 2013 |
| Impaired loans    | \$7,031                 | \$—  | \$—  | \$7,031   | \$(10,378)   |
| Other real estate | 7,849                   | —  | —  | 7,849   | (1,443)  |
| Total             | \$14,880                | \$—  | \$—  | \$14,880  | \$(11,821)   |

(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. 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

106

---

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.

Carrying amount and fair value at December 31, 2014 and 2013

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

| (in thousands)                   | December 31, 2014 |                      | December 31, 2013 |                      |
|----------------------------------|-------------------|----------------------|-------------------|----------------------|
|                                  | Carrying Amount   | Estimated fair value | Carrying Amount   | Estimated fair value |
| <b>Balance sheet assets</b>      |                   |                      |                   |                      |
| Cash and due from banks          | \$42,903          | \$42,903             | \$19,573          | \$19,573             |
| Federal funds sold               | 35                | 35                   | 76                | 76                   |
| Interest-bearing deposits        | 63,058            | 63,058               | 196,220           | 196,220              |
| Securities available for sale    | 400,146           | 400,146              | 434,587           | 434,587              |
| Securities held to maturity      | 45,985            | 45,795               | —                 | —                    |
| Other investments, at cost       | 17,037            | 17,037               | 12,605            | 12,605               |
| Loans held for sale              | 4,033             | 4,033                | 1,834             | 1,834                |
| Derivative financial instruments | 909               | 909                  | 1,000             | 1,000                |
| Portfolio loans, net             | 2,487,424         | 2,482,700            | 2,235,124         | 2,232,134            |
| State tax credits, held for sale | 38,309            | 42,970               | 48,457            | 52,159               |
| Accrued interest receivable      | 7,956             | 7,956                | 7,303             | 7,303                |
| <b>Balance sheet liabilities</b> |                   |                      |                   |                      |
| Deposits                         | 2,491,510         | 2,494,624            | 2,534,953         | 2,540,822            |
| Subordinated debentures          | 56,807            | 34,124               | 62,581            | 39,358               |
| Federal Home Loan Bank advances  | 144,000           | 144,000              | 50,000            | 54,137               |
| Other borrowings                 | 239,883           | 239,950              | 214,331           | 214,377              |
| Derivative financial instruments | 907               | 907                  | 990               | 990                  |
| Accrued interest payable         | 843               | 843                  | 957               | 957                  |

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 on the consolidated balance sheets at fair value at December 31, 2014, and December 31, 2013.

| (in thousands)                   | Estimated Fair Value Measurement at Reporting Date |          |           | Balance at<br>December 31, 2014 |
|----------------------------------|--|----------|-----------|---------------------------------|
|                                  | Using<br>Level 1                                   | Level 2  | Level 3   |                                 |
| Financial Assets:                |  |          |           |                                 |
| Securities held to maturity      | \$—  | \$45,795 | \$—       | \$45,795                        |
| Portfolio loans, net             | —  | —        | 2,482,700 | 2,482,700                       |
| State tax credits, held for sale | —  | —        | 31,281    | 31,281                          |
| Financial Liabilities:           |  |          |           |                                 |
| Deposits                         | 1,986,158  | —        | 508,466   | 2,494,624                       |
| Subordinated debentures          | —  | 34,124   | —         | 34,124                          |
| Federal Home Loan Bank advances  | —  | 144,000  | —         | 144,000                         |
| Other borrowings                 | —  | 239,950  | —         | 239,950                         |

| (in thousands)                   | Estimated Fair Value Measurement at Reporting Date |         |             | Balance at<br>December 31, 2013 |
|----------------------------------|--|---------|-------------|---------------------------------|
|                                  | Using<br>Level 1                                   | Level 2 | Level 3     |                                 |
| Financial Assets:                |  |         |             |                                 |
| Portfolio loans, net             | \$—  | \$—     | \$2,232,134 | \$2,232,134                     |
| State tax credits, held for sale | —  | —       | 35,668      | 35,668                          |
| Financial Liabilities:           |  |         |             |                                 |
| Deposits                         | 1,902,038  | —       | 638,784     | 2,540,822                       |
| Subordinated debentures          | —  | 39,358  | —           | 39,358                          |
| Federal Home Loan Bank advances  | —  | 54,137  | —           | 54,137                          |
| Other borrowings                 | —  | 214,377 | —           | 214,377                         |

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practical to estimate such value:

#### Cash, Federal funds sold, and other short-term instruments

For cash and due from banks, federal funds purchased, interest-bearing deposits, and accrued interest receivable (payable), the carrying amount is a reasonable estimate of fair value, as such instruments reprice in a short time period (Level 1).

#### Securities available for sale and held to maturity

The Company obtains fair value measurements for debt instruments from an independent pricing service. The fair value measurements consider observable data that may include dealer quotes, market spreads, cash flows, the U.S. Treasury yield curve, live trading levels, trade execution data, market consensus prepayment speeds, credit information and the bond's terms and conditions (Level 2).

#### Other investments

Other investments, which primarily consists of membership stock in the FHLB, is reported at cost, which approximates fair value (Level 2).

#### Loans held for sale

These loans consist of mortgages that are sold on the secondary market generally within three months of origination. They are reported at cost, which approximates fair value (Level 2).



#### Portfolio loans, net

The fair value of adjustable-rate loans approximates cost. The fair value of fixed-rate loans is estimated by discounting the future cash flows using the current rates at which similar loans would be made to borrowers for the same remaining maturities. The fair value of the acquired loans are based on the present value of expected future cash flows (Level 3). The method of estimating fair value does not incorporate the exit-price concept of fair value prescribed by ASC Topic 820.

#### State tax credits held for sale

The fair value of state tax credits held for sale is calculated using an internal valuation model with unobservable market data as discussed in further detail above (Level 3).

#### Derivative financial instruments

The fair value of derivative financial instruments is based on quoted market prices by the counterparty and verified by the Company using public pricing information (Level 2).

#### Deposits

The fair value of demand deposits, interest-bearing transaction accounts, money market accounts and savings deposits is the amount payable on demand at the reporting date (Level 1). The fair value of fixed-maturity certificates of deposit is estimated by discounting the future cash flows using the rates currently offered for deposits of similar remaining maturities (Level 3).

#### Subordinated debentures

Fair value of subordinated debentures is based on discounting the future cash flows using rates currently offered for financial instruments of similar remaining maturities (Level 2).

#### Federal Home Loan Bank advances

The fair value of the FHLB advances is based on the discounted value of contractual cash flows. The discount rate is estimated using current rates on borrowed money with similar remaining maturities (Level 2).

#### Other borrowed funds

Other borrowed funds include customer repurchase agreements, federal funds purchased, notes payable, and secured borrowings related to loan participations. The fair value of federal funds purchased, customer repurchase agreements and notes payable are assumed to be equal to their carrying amount since they have an adjustable interest rate (Level 2).

#### Commitments to extend credit and standby letters of credit

The fair value of commitments to extend credit and standby letters of credit are estimated using the fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements, the likelihood of the counterparties drawing on such financial instruments, and the present creditworthiness of such counterparties (Level 2). The Company believes such commitments have been made on terms which are competitive in the markets in which it operates; however, no premium or discount is offered thereon and accordingly, the Company has not assigned a value to such instruments for purposes of this disclosure.

#### Limitations

Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instrument. These estimates are subjective in nature and involve uncertainties and matters of significant judgment, and therefore, cannot be determined with precision. Such estimates include the valuation of loans, goodwill, intangible assets, and other long-lived assets, along with assumptions used in the calculation of income taxes, among others. These estimates and assumptions are based on management's best estimates and judgment. Management

evaluates its estimates and assumptions on an ongoing basis using historical experience and other factors, including the current economic environment, which management believes to be reasonable under the circumstances. We adjust such estimates and assumptions when facts and circumstances dictate. Decreasing real estate values, illiquid credit markets, volatile equity markets, and declines in consumer spending have combined to increase the uncertainty inherent in such estimates and assumptions. As future events and their effects cannot be determined with precision, actual

109

---

results could differ significantly from these estimates. Changes in estimates resulting from continuing changes in the economic environment will be reflected in the financial statement in future periods. In addition, these estimates do not reflect any premium or discount that could result from offering for sale at one time the Company's entire holdings of a particular financial instrument. Fair value estimates are based on existing on-balance and off-balance-sheet financial instruments without attempting to estimate the value of anticipated future business and the value of assets and liabilities that are not considered financial instruments. In addition, the tax ramifications related to the realization of the unrealized gains and losses can have a significant effect on fair value estimates and have not been considered in many of the estimates.

## NOTE 21-PARENT COMPANY ONLY CONDENSED FINANCIAL STATEMENTS

## Condensed Balance Sheets

| (in thousands)                              | December 31, |           |
|---|--------------|-----------|
|   | 2014         | 2013      |
| <b>Assets</b>                               |              |           |
| Cash  | \$14,532     | \$15,969  |
| Investment in Enterprise Bank & Trust       | 344,995      | 318,721   |
| Investment in Enterprise Financial CDE, LLC | 772          | 425       |
| Other assets                                | 19,223       | 18,537    |
| Total assets                                | \$379,522    | \$353,652 |
| <b>Liabilities and Shareholders' Equity</b> |              |           |
| Subordinated debentures                     | \$56,807     | \$62,581  |
| Notes payable                               | 5,700        | 10,500    |
| Accounts payable and other liabilities      | 774          | 866       |
| Shareholders' equity                        | 316,241      | 279,705   |
| Total liabilities and shareholders' equity  | \$379,522    | \$353,652 |

## Condensed Statements of Operations

| (in thousands)   | Years ended December 31, |                 |                 |
|--|--------------------------|-----------------|-----------------|
|  | 2014                     | 2013            | 2012            |
| <b>Income:</b>   |                          |                 |                 |
| Dividends from subsidiaries  | \$ 10,000                | \$ 10,000       | \$ 15,000       |
| Other  | 225                      | 256             | 527             |
| <b>Total income</b>  | <b>10,225</b>            | <b>10,256</b>   | <b>15,527</b>   |
| <b>Expenses:</b>   |                          |                 |                 |
| Interest expense-subordinated debentures                                 | 1,322                    | 2,884           | 3,827           |
| Interest expense-notes payable   | 193                      | 396             | 64              |
| Other expenses   | 4,402                    | 5,142           | 5,462           |
| <b>Total expenses</b>  | <b>5,917</b>             | <b>8,422</b>    | <b>9,353</b>    |
| Income before taxes and equity in undistributed earnings of subsidiaries | 4,308                    | 1,834           | 6,174           |
| Income tax benefit   | 2,305                    | 3,394           | 3,739           |
| Net income before equity in undistributed earnings of subsidiaries       | 6,613                    | 5,228           | 9,913           |
| Equity in undistributed earnings of subsidiaries                         | 20,560                   | 27,876          | 18,383          |
| <b>Net income and comprehensive income</b>                               | <b>\$27,173</b>          | <b>\$33,104</b> | <b>\$28,296</b> |

## Condensed Statements of Cash Flow

| (in thousands)  | Years Ended December 31, |           |           |
|---|--------------------------|-----------|-----------|
|   | 2014                     | 2013      | 2012      |
| Cash flows from operating activities:   |                          |           |           |
| Net income  | \$27,173                 | \$33,104  | \$28,296  |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities: |                          |           |           |
| Share-based compensation  | 2,950                    | 5,049     | 2,537     |
| Net income of subsidiaries  | (30,560                  | ) (37,876 | ) (33,383 |
| Dividends from subsidiaries   | 10,000                   | 10,000    | 15,000    |
| Excess tax expense of share-based compensation  | (205                     | ) (222    | ) (66     |
| Other, net  | 704                      | 2,004     | 2,064     |
| Net cash provided (used) by operating activities  | 10,062                   | 12,059    | 14,448    |
| Cash flows from investing activities:   |                          |           |           |
| Purchases of other investments  | (2,224                   | ) (761    | ) (970    |
| Proceeds from distributions on other investments  | 176                      | 243       | 541       |
| Net cash provided (used) by investing activities  | (2,048                   | ) (518    | ) (429    |
| Cash flows from financing activities:   |                          |           |           |
| Proceeds from notes payable   | —                        | —         | 12,000    |
| Repayments of notes payable   | (4,800                   | ) (1,200  | ) (300    |
| Debt issuance costs   | —                        | —         | (45       |
| Cash dividends paid   | (4,177                   | ) (3,947  | ) (3,757  |
| Excess tax benefit of share-based compensation  | 205                      | 222       | 66        |
| Payments for the repurchase of preferred stock  | —                        | —         | (35,000   |
| Dividends paid on preferred stock   | —                        | —         | (1,711    |
| Issuance of common stock  | 2                        | 13        | 3         |
| Common stock repurchased  | —                        | (1,006    | ) —       |
| Proceeds from the issuance of equity instruments, net                                       | (681                     | ) 2,266   | 1,558     |
| Net cash provided (used) by financing activities  | (9,451                   | ) (3,652  | ) (27,186 |
| Net increase (decrease) in cash and cash equivalents  | (1,437                   | ) 7,889   | (13,167   |
| Cash and cash equivalents, beginning of year  | 15,969                   | 8,080     | 21,247    |
| Cash and cash equivalents, end of year  | \$14,532                 | \$15,969  | \$8,080   |

## NOTE 22-QUARTERLY CONDENSED FINANCIAL INFORMATION (Unaudited)

The following table presents the unaudited quarterly financial information for the years ended December 31, 2014 and 2013:

|   | 2014           |                |                |                |
|---|----------------|----------------|----------------|----------------|
| (in thousands, except per share data)                                 | 4th<br>Quarter | 3rd<br>Quarter | 2nd<br>Quarter | 1st<br>Quarter |
| Interest income   | \$ 34,385      | \$ 31,036      | \$ 32,309      | \$ 34,024      |
| Interest expense  | 3,569          | 3,592          | 3,567          | 3,658          |
| Net interest income   | 30,816         | 27,444         | 28,742         | 30,366         |
| Provision for loan losses not covered under FDIC loss share           | 1,968          | 66             | 1,348          | 1,027          |
| Provision (benefit) for loan losses covered under FDIC loss share     | 126            | (1,877         | ) (470         | ) 3,304        |
| Net interest income after provision for loan losses                   | 28,722         | 29,255         | 27,864         | 26,035         |
| Noninterest income  | 4,852          | 4,452          | 3,405          | 3,922          |
| Noninterest expense   | 24,795         | 21,121         | 20,445         | 21,102         |
| Income before income tax expense                                      | 8,779          | 12,586         | 10,824         | 8,855          |
| Income tax expense  | 2,812          | 4,388          | 3,664          | 3,007          |
| Net income  | \$ 5,967       | \$ 8,198       | \$ 7,160       | \$ 5,848       |
| Earnings per common share:  |                |                |                |                |
| Basic   | \$ 0.30        | \$ 0.41        | \$ 0.36        | \$ 0.30        |
| Diluted   | 0.30           | 0.41           | 0.36           | 0.30           |
|   | 2013           |                |                |                |
| (in thousands, except per share data)                                 | 4th<br>Quarter | 3rd<br>Quarter | 2nd<br>Quarter | 1st<br>Quarter |
| Interest income   | \$ 36,435      | \$ 36,883      | \$ 38,061      | \$ 41,910      |
| Interest expense  | 4,064          | 4,309          | 4,753          | 5,011          |
| Net interest income   | 32,371         | 32,574         | 33,308         | 36,899         |
| Provision (benefit) for loan losses not covered under FDIC loss share | 2,452          | (652           | ) (4,295       | ) 1,853        |
| Provision (benefit) for loan losses covered under FDIC loss share     | 2,185          | 2,811          | (2,278         | ) 2,256        |
| Net interest income after provision for loan losses                   | 27,734         | 30,415         | 39,881         | 32,790         |
| Noninterest income  | 4,946          | 3,716          | (1,677         | ) 2,914        |
| Noninterest expense   | 28,199         | 21,008         | 21,147         | 20,285         |
| Income before income tax expense                                      | 4,481          | 13,123         | 17,057         | 15,419         |
| Income tax expense  | 860            | 4,713          | 6,024          | 5,379          |
| Net income  | \$ 3,621       | \$ 8,410       | \$ 11,033      | \$ 10,040      |
| Earnings per common share:  |                |                |                |                |
| Basic   | 0.19           | \$ 0.45        | \$ 0.61        | \$ 0.56        |
| Diluted   | 0.18           | 0.44           | 0.58           | 0.53           |



#### NOTE 23-NEW AUTHORITATIVE ACCOUNTING GUIDANCE

FASB ASU 2014-01, "Investments - Equity Method and Joint Ventures (Topic 323): Accounting for Investments in Qualified Affordable Housing Projects" In January 2014, the FASB issued ASU No. 2014-01 which revised the accounting for investments in qualified affordable housing projects. This ASU modifies the conditions that must be met to present the pretax effects and related tax benefits of such investments as a component of income taxes ("net" within income tax expense). This ASU is effective for annual periods beginning after December 15, 2013 with early adoption permitted. The Company elected to early adopt this ASU and therefore revised its Consolidated Statements of Operations for all periods presented prior to the year ended December 31, 2013. The adoption of the ASU moved the amortization expense of its investment basis in the related investments to Income Tax Expense from Other Noninterest Expense. This resulted in a \$0.9 million increase in Income Tax Expense and a corresponding decrease in Other Noninterest Expense for the year ended December 31, 2012.

FASB ASU 2014-09, "Revenue from Contracts with Customers" In May 2014, the FASB issued ASU No. 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 is effective for annual reporting periods (including interim periods within those periods) beginning after December 15, 2016 for public companies. Early adoption is not permitted. Entities have the option of using either a full retrospective or modified approach to adopt ASU 2014-09. 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.

FASB ASU 2014-11, "Transfers and Servicing (Topic 860): Repurchase-to-Maturity Transactions, Repurchase Financings, and Disclosures" In June 2014, the FASB issued ASU No. 2014-11, "Transfers and Servicing (Topic 860): Repurchase-to-Maturity Transactions, Repurchase Financings, and Disclosures." The objective of ASU 2014-11 is to amend the accounting for certain secured financing transactions, and requires enhanced disclosures with respect to transactions recognized as sales in which exposure to the derecognized asset is retained through a separate agreement with the counterparty. In addition, the guidance requires enhanced disclosures with respect to the types and quality of financial assets pledged in secured financing transactions. The guidance will become effective in the first quarter of 2015, except for the disclosures regarding the types and quality of financial assets pledged, which will become effective in the second quarter of 2015. The Company does not believe the guidance will have a material impact on its consolidated balance sheets or statements of operations.

#### ITEM 9: CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

#### ITEM 9A: CONTROLS AND PROCEDURES

##### Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and our Chief Financial Officer, evaluated the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) under the Securities



Exchange Act of 1934, as amended, the “Act”) as of December 31, 2014. Based upon this evaluation, our Chief Executive Officer and our Chief Financial Officer have concluded that as of December 31, 2014, such disclosure controls and procedures were effective to ensure that information required to be disclosed by the Company in the reports it files or submits under the Act is accumulated and communicated to the Company’s management (including

the Chief Executive Officer and Chief Financial Officer) to allow timely decisions regarding required disclosure, and is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms.

#### Management's Assessment of Internal Control Over Financial Reporting

Management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rule 13a-15(e) and 15(d)-15(e) under the Securities Exchange Act of 1934, as amended, the "Act"). The Company's internal control system is a process designed to provide reasonable assurance to the Company's management and Board of Directors regarding the preparation and fair presentation of published financial statements. The Company's internal control over financial reporting includes policies and procedures that pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect transactions and dispositions of assets; provide reasonable assurances that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States of America, and that receipts and expenditures are being made only in accordance with authorizations of management and the directors of the Company; and provide reasonable assurance regarding prevention or untimely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the Company's financial statements. All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial reporting. Further, because of changes in conditions, the effectiveness of any system of internal control may vary over time. The design of any internal control system also factors in resource constraints and consideration for the benefit of the control relative to the cost of implementing the control. Because of these inherent limitations in any system of internal control, management cannot provide absolute assurance that all control issues and instances of fraud within the Company have been detected.

Management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2014. In making this assessment, management used the criteria set forth by the 2013 Committee of Sponsoring Organizations of the Treadway Commission in Internal Control - Integrated Framework. Management has concluded that the Company maintained an effective system of internal control over financial reporting based on these criteria as of December 31, 2014.

The Company's independent registered public accounting firm, Deloitte & Touche LLP, who audited the consolidated financial statements, has issued an audit report on the Company's internal control over financial reporting as of December 31, 2014, and it is included herein.

#### Changes in Internal Control Over Financial Reporting

There have been no changes in the Company's internal control over financial reporting (as defined in Rule 13a-15(f) and 15d-15(f) under the Act) that occurred during the Company's quarter ended December 31, 2014 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

#### ITEM 9B: OTHER INFORMATION

Item 5.02: Departure of Directors or Certain Officers; Election of Directors; Appointment of Certain Officers' Compensatory Arrangements of Certain Officers.

#### Entry Into or Amendment of Material Compensatory Plan, Contract or Arrangement

On February 27, 2015, the Company entered into the First Amendment (the "First Amendment") to an Executive Employment Agreement (the "Agreement") with Keene S. Turner, Executive Vice President and Chief Financial Officer of Enterprise Financial Services Corp. Under the terms of the First Amendment, if Mr. Turner's employment is terminated by the Company "Upon a Change in Control" (as defined in the Agreement), he will be entitled to severance pay equal to two year's base salary, plus the target amount of his annual cash bonus opportunity for the year in which such termination occurs multiplied by two. The description of the First Amendment set forth herein is a

summary only and is qualified in its entirety by the full text of the First Amendment, a copy of which is listed as Exhibit 10.1.7 to this annual report and incorporated by reference herein.

PART III

ITEM 10: DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information required by this item is incorporated herein by reference to the Board and Committee Information and Executive Officer sections of the Company's Proxy Statement for its annual meeting to be held on Thursday, April 30, 2015.

ITEM 11: EXECUTIVE COMPENSATION

The information required by this item is incorporated herein by reference to the Executive Compensation section of the Company's Proxy Statement for its annual meeting to be held on Thursday, April 30, 2015.

ITEM 12: SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information required by this item is incorporated herein by reference to the Information Regarding Beneficial Ownership section of the Company's Proxy Statement for its annual meeting to be held on Thursday, April 30, 2015.

ITEM 13: CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE

The information required by this item is incorporated herein by reference to the Related Person Transactions section of the Company's Proxy Statement for its annual meeting to be held on Thursday, April 30, 2015.

ITEM 14: PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information required by this item is incorporated by reference to the Fees Paid to Independent Registered Public Accounting Firm section of the Company's Proxy Statement for its annual meeting to be held on Thursday, April 30, 2015.

PART IV

ITEM 15: EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) 1. Financial Statements

The consolidated financial statements of Enterprise Financial Services Corp and its subsidiaries and independent auditors' reports are included in Part II (Item 8) of this Form 10-K.

2. Financial Statement Schedules

All financial statement schedules have been omitted, as they are either inapplicable or included in the Notes to Consolidated Financial Statements.

3. Exhibits

| Exhibit No. | Description  |
|-------------|--|
| 3.1         | Certificate of Incorporation of Registrant, (incorporated herein by reference to Exhibit 3.1 of Registrant's Registration Statement on Form S-1 filed on December 19, 1996 (File No. 333-14737)).  |
| 3.2         | Amendment to the Certificate of Incorporation of Registrant (incorporated herein by reference to Exhibit 4.2 to Registrant's Registration Statement on Form S-8 filed on July 1, 1999 (File No. 333-82087)).   |
| 3.3         | Amendment to the Certificate of Incorporation of Registrant (incorporated herein by reference to Exhibit 3.1 to Registrant's Quarterly Report on Form 10-Q for the period ending September 30, 1999).  |
| 3.4         | Amendment to the Certificate of Incorporation of Registrant (incorporated herein by reference to Exhibit 99.2 to Registrant's Current Report on Form 8-K filed on April 30, 2002).   |
| 3.5         | Amendment to the Certificate of Incorporation of Registrant (incorporated herein by reference to Appendix A to Registrant's Proxy Statement on Form 14-A filed on November 20, 2008).  |
| 3.6         | Certificate of Designations of Registrant for Fixed Rate Cumulative Perpetual Preferred Stock, Series A, dated December 17, 2008 (incorporated herein by reference to Exhibit 3.1 to Registrant's Current Report on Form 8-K filed on December 23, 2008).  |
| 3.7         | Amendment to the Certificate of Incorporation of Registrant (incorporated herein by reference to Exhibit 3.1 to the Registrant's Quarterly Report on Form 10-Q for the period ending June 30, 2014).   |
| 3.8         | Bylaws of Registrant, as amended, (incorporated herein by reference to Exhibit 3.1 to Registrant's Current Report on Form 8-K filed on October 2, 2007).   |
| 10.1.1*     | Key Executive Employment Agreement dated effective as of July 1, 2008 by and between Registrant and Stephen P. Marsh (incorporated herein by reference to Exhibit 99.1 to Registrant's Current Report on Form 8-K filed on November 25, 2008), and amended by that First Amendment of Executive Employment Agreement dated as of December 19, 2008 (incorporated herein by reference to Exhibit 99.6 to Registrant's Current Report on Form 8-K filed on December 23, 2008). |

10.1.2\* Amended and Restated Executive Employment Agreement effective as of August 8, 2014 by and between Registrant and Frank H. Sanfilippo (incorporated herein by reference to Exhibit 10.1 to Registrant's Quarterly Report on Form 10-Q for the period ending September 30, 2014).

117

---

- 10.1.3\* Key Executive Employment Agreement dated effective as of September 24, 2008, by and between Registrant and Peter F. Benoist (incorporated herein by reference to Exhibit 10.1 to Registrant's Current Report on Form 8-K filed on September 30, 2008), amended by that First Amendment of Executive Employment Agreement dated as of December 19, 2008 (incorporated herein by reference to Exhibit 99.3 to Registrant's Current Report on Form 8-K filed on December 23, 2008), amended by that Second Amendment of Executive Employment Agreement dated as of March 25, 2013 (incorporated herein by reference to Exhibit 10.1 to Registrant's Current Report on Form 8-K filed on March 26, 2013), and amended by that Third Amendment of Executive Employment Agreement dated as of February 4, 2014 (incorporated herein by reference to Exhibit 10.1.3 to the Registrant's Annual Report on Form 10-K filed on March 17, 2014).
- 10.1.4\* Key Executive Employment Agreement dated effective as of October 16, 2002, by and between Registrant and Richard C. Leuck, and amended by that First Amendment of Executive Employment Agreement dated as of December 31, 2008 (incorporated herein by reference to Exhibit 10.1.4 to Registrant's Annual Report on Form 10-K filed on March 15, 2013).
- 10.1.5\* Employment separation and release agreement dated effective September 29, 2014 by and between Registrant and Richard C. Leuck (incorporated herein by reference to Exhibit 10.2 to Registrant's Quarterly Report on Form 10-Q for the period ending September 30, 2014).
- 10.1.6\* Executive Employment Agreement dated effective January 1, 2005 by and between Registrant and Scott R. Goodman, amended by that First Amendment of Executive Employment Agreement dated as of December 31, 2008 (incorporated herein by reference to Exhibit 10.1.5 to Registrant's Annual Report on Form 10-K filed on March 15, 2013), and amended by that Second Amendment of Executive Employment Agreement dated October 11, 2013 (incorporated herein by reference to Exhibit 10.1.5 to Registrant's Annual Report on Form 10-K filed on March 17, 2014).
- 10.1.7\* Executive Employment Agreement dated September 13, 2013 by and between Registrant and Keene S. Turner (incorporated by reference herein to Exhibit 10.1 to Registrant's Quarterly Report on Form 10-Q for the period ending September 30, 2013), and amended by that First Amendment of Executive Employment Agreement dated as of February 27, 2015 (filed herewith).
- 10.1.8\* Enterprise Financial Services Corp Deferred Compensation Plan I (incorporated herein by reference to Exhibit 10.1 of Registrant's Quarterly Report on Form 10-Q for the period ended March 31, 2000).
- 10.1.9\* Enterprise Financial Services Corp Amended and Restated Deferred Compensation Plan I dated effective as of December 31, 2008 (incorporated by reference to Exhibit 10.9 to Registrant's Report on Form 10-K for the year ended December 31, 2008).
- 10.1.10\* Enterprise Financial Services Corp, Third Incentive Stock Option Plan (incorporated herein by reference to Exhibit 4.5 to Registrant's Registration Statement on Form S-8 filed on December 29, 1997 (File No. 333-43365)).
- 10.1.11\* Enterprise Financial Services Corp, Fourth Incentive Stock Option Plan (incorporated herein by reference to Registrant's 1998 Proxy Statement on Schedule 14A).
- 10.1.12\* Enterprise Financial Services Corp, Stock Plan for Non-Management Directors (incorporated herein by reference to Registrant's Proxy Statement on Schedule 14-A filed on March 7, 2006 and as amended on Schedule 14-A filed on April 23, 2012).

- 10.1.13\* Enterprise Financial Services Corp, 2002 Stock Incentive Plan, as amended (incorporated herein by reference to Appendix A to Registrant's Proxy Statement on Schedule 14A, filed on March 17, 2008).
- 10.1.14\* Enterprise Financial Services Corp, Annual Incentive Plan (incorporated herein by reference to Appendix C to Registrant's Proxy Statement on Schedule 14A, filed on March 7, 2006).
- 10.1.15\* Enterprise Financial Services Corp, Incentive Stock Purchase Plan (incorporated herein by reference to Exhibit 4.6 to Registrant's Registration Statement on Form S-8 filed on November 1, 2002 (File No. 333-100928)).



- 10.1.16\* Form of Enterprise Financial Services Corp Restricted Stock Award Agreement (incorporated herein by reference to Exhibit 99.1 to Registrant's Current Report on Form 8-K filed on February 19, 2010);
- 10.1.17\* Enterprise Financial Services Corp, 2013 Stock Incentive Plan (incorporated herein by reference to Appendix A to Registrant's Proxy statement on Schedule 14A, filed on March 26, 2013).
- 10.1.18\* Form of Enterprise Financial Services Corp Restricted Stock Unit Award Agreement (incorporated herein by reference to Exhibit 10.2 to Registrant's Current Report on Form 10-Q filed on August 8, 2012);
- 10.1.19\* Form of Enterprise Financial Services Corp Restricted Stock Award Agreement (incorporated herein by reference to Exhibit 10.3 to Registrant's Current Report on Form 10-Q filed on August 8, 2012);
- 10.1.20\* Restricted Stock Unit Agreement by and between Registrant and Keene S. Turner (incorporated herein by reference to Exhibit 10.1.2 to Registrant's Quarterly Report on form 10-Q for the period ended March 31, 2014).
- 10.1.21\* Form of Enterprise Financial Services Corp LTIP Grant Agreement pursuant to 2013 Stock Incentive Plan (incorporated herein by reference to Exhibit 10.1.3 to the Registrant's Quarterly Report on form 10-Q for the period ended March 31, 2014).
- 10.2 Loan Sale Agreement dated July 9, 2010 by and between the Federal Deposit Insurance Corporation, as Receiver for Home National Bank, Blackwell, Oklahoma and Enterprise Bank & Trust (incorporated by reference to Exhibit 10.1 to Registrant's Quarterly Report on Form 10-Q filed on August 6, 2010.)
- 10.3 Purchase and Assumption Agreement dated January 7, 2011, by and between Enterprise Bank & Trust and the Federal Deposit Insurance Corporation as Receiver for Legacy Bank (incorporated by reference to Exhibit 10.1 to Registrant's Quarterly Report on Form 10-Q filed on May 10, 2011).
- 10.4 Purchase and Assumption Agreement dated August 12, 2011, by and between Enterprise Bank & Trust and the Federal Deposit Insurance Corporation as Receiver for The First National Bank of Olathe (incorporated herein by reference to Exhibit 10.1 to Registrant's Current Report on Form 8-K/A filed on October 28, 2011).
- 10.5 Term Loan Agreement dated November 6, 2012 between US Bank National Association and Registrant (incorporated herein by reference to Exhibit 10.10 in Registrant's Annual Report on Form 10-K filed on March 15, 2013).
- 12.1 Computation of Ratio of Earnings to Fixed Charges and Preferred Dividends
- 21.1 Subsidiaries of Registrant.
- 23.1 Consent of Deloitte & Touche LLP.
- 24.1 Power of Attorney.
- 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.

\* Management contract or compensatory plan or arrangement.

119

---

Note:

In accordance with Item 601 (b) (4) (iii) of Regulation S-K, Registrant hereby agrees to furnish to the SEC, upon its request, a copy of any instrument that defines the rights of holders of each issue of long-term debt of Registrant and its consolidated subsidiaries for which consolidated and unconsolidated financial statements are required to be filed and that authorizes a total amount of securities not in excess of ten percent of the total assets of the Registrant on a consolidated basis.

120

---

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized on February 27, 2015.

ENTERPRISE FINANCIAL SERVICES CORP

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

Pursuant to the requirements of the Securities Act of 1934, this Report on Form 10-K has been signed by the following persons in the capacities indicated on February 27, 2015.

| Signatures  | Title   |
|---|---|
| /s/ Peter F. Benoist<br>Peter F. Benoist          | President and Chief Executive Officer and Director<br>(Principal Executive Officer)   |
| /s/ Keene S. Turner<br>Keene S. Turner            | Executive Vice President and Chief Financial Officer<br>(Principal Financial Officer) |
| /s/ Mark G. Ponder<br>Mark G. Ponder              | Senior Vice President and Controller<br>(Principal Accounting Officer)                |
| /s/ James J. Murphy, Jr.*<br>James J. Murphy, Jr. | Chairman of the Board of Directors  |
| /s/ Michael A. DeCola*<br>Michael A. DeCola       | Director  |
| /s/ William H. Downey*<br>William H. Downey       | Director  |
| /s/ John S. Eulich*<br>John S. Eulich             | Director  |
| /s/ Robert E. Guest, Jr.*<br>Robert E. Guest, Jr. | Director  |
| /s/ James M. Havel*<br>James M. Havel             | Director  |
| /s/ Judith S. Heeter*<br>Judith S. Heeter         | Director  |
| /s/ Birch M. Mullins*<br>Birch M. Mullins         | Director  |
| /s/ Brenda D. Newberry*<br>Brenda D. Newberry     | Director  |
| /s/ Sandra A. Van Trease*<br>Sandra A. Van Trease | Director  |

\*Signed by Power of Attorney.