ENTERPRISE FINANCIAL SERVICES CORP
Form 10-K
April 23, 2012

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

FORM 10-K

[X] Annual Report Pursuant to Section 13 or 15(d) of the Securities and Exchange Act of 1934
For the fiscal year ended December 31, 2011.

[ ] 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)	(Name of each exchange on which registered)
Common Stock, par value $.01 per share	NASDAQ Global Select Market

Securities registered pursuant to Section 12(g) of the Act:
None

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

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 [X]

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K 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. [ ]

Indicate by check mark whether the registrant has submitted electronically and posted on its website, if any, every Interactive Data file required to be submitted and posted pursuant to Rule 405 of Regulation S-7 (§ 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 [X] No [ ]

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

Large accelerated filer [ ]	Accelerated filer [X]	Non-accelerated filer [ ] (Other than a smaller reporting company)	Smaller reporting company [ ]

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

The aggregate market value of the common stock held by non-affiliates of the Registrant was approximately $225,683,945 based on the closing price of the common stock of $13.53 as of the last business day of the registrant's most recently completed second fiscal quarter (June 30, 2011) as reported by the NASDAQ Global Select Market.

As of April 13, 2012, the Registrant had 17,795,511 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 2012 Annual Meeting of Shareholders, which will be filed within 120 days of December 31, 2011.

EXPLANATORY NOTE

In January 2012, while converting to a new system designed to address the complex accounting requirements of acquired loans under Accounting Standards Codification ("ASC") Topic 310-30, “Loans and Debt Securities Acquired with Deteriorated Credit Quality”, the Company discovered an error in its process used to record income on these loans. ASC 310-30 is utilized to account for the loans acquired by the Company under loss sharing agreements with the Federal Deposit Insurance Corporation (the “FDIC”). Under ASC 310-30, these 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. In accounting for income from the acquired loans, the Company recorded both the accretable yield and contractually required interest payments. The Company should not have recognized the contractually required interest payments. As a result, both interest income and the carrying value of the acquired loans were overstated. This affected income reported on the loans acquired in FDIC assisted transactions since December 2009.

On January 25, 2012, the Company issued a press release and filed a related Current Report on Form 8-K with the Securities and Exchange Commission ("SEC") in which it announced that the previously issued audited consolidated financial statements and the Report of Independent Registered Public Accounting Firm thereon for fiscal year 2010, and the unaudited condensed consolidated financial statements for the fiscal quarters ending March 31, 2010, June 30, 2010 and September 30, 2010, filed on Forms 10- Q (the "Original Filings") should no longer be relied upon.

On April 23, 2012, the Company filed an Amended Annual Report on Form 10-K/A with the SEC to restate the audited consolidated financial statements and related disclosures for the fiscal year ended December 31, 2010 and Amended Quarterly Reports on Form 10-Q/A for the quarters ended March 31, June 30 and September 30, 2011 (the "Restatement".)

See Item 8, Note 24 - Restatement of Consolidated Financial Statements for more information.

Internal Control Considerations

In conjunction with the Restatement, management identified control deficiencies in its internal controls over financial reporting associated with the reversal of contractual interest on acquired loans that constitute a material weakness, as discussed in Part II, Item 9A of this Form 10-K. A material weakness is a control deficiency, or combination of control deficiencies, that results in more than a remote likelihood that a material misstatement of the annual or interim consolidated financial statements will not be prevented or detected. For a discussion of management’s consideration of our disclosure controls and procedures and material weaknesses identified, see Part I, Item IA and Part II, Item 9A included in this filing.

ENTERPRISE FINANCIAL SERVICES CORP
2011 ANNUAL REPORT ON FORM 10-K
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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 accounting regulation or standards applicable to banks; and other risks discussed under in 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.

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 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.

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”). 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.

- Valley Capital Bank (“Valley Capital”) - On December 11, 2009, the Bank acquired certain assets and assumed certain liabilities of Valley Capital, a full service community bank that was headquartered in Mesa, Arizona. Under the terms of the purchase and assumption agreement, the Bank acquired tangible assets of approximately $44.1 million and assumed liabilities of approximately $43.4 million. The FDIC will reimburse the Bank for 80% of the losses on Covered Assets up to $11.0 million and 95% of the losses on Covered Assets exceeding $11.0 million.

- Home National Bank (“Home National”) - On July 9, 2010, the Bank acquired approximately $256.0 million in Arizona-originated assets from the FDIC in connection with the failure of Home National, an Oklahoma

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bank with operations in Arizona. Under the terms of the loan sale agreement, the Bank acquired the loans originated and other real estate at a discount of 12.5%. The Bank did not assume any deposits or acquire any branches or other assets of Home National in the transaction. The FDIC will reimburse the Bank for 80% of all losses on Covered Assets.

- Legacy Bank ("Legacy") - On January 7, 2011, the Bank acquired certain assets and assumed certain liabilities of Legacy, a full service community bank that was headquartered in Scottsdale, Arizona. The acquisition consisted of tangible assets with fair values of approximately $128.0 million and liabilities of approximately $130.4 million. In addition, the Bank also acquired approximately $55.6 million of discretionary and $13.6 million of non-discretionary trust assets. The FDIC will reimburse the Bank for 80% of all losses on Covered Assets.

In conjunction with the Legacy acquisition, the Company provided the FDIC with a Value Appreciation Instrument ("VAI") whereby 372,500 units were awarded to the FDIC at an exercise price of $10.63 per unit. The units were exercisable at any time from January 14, 2011 until January 6, 2012. The FDIC exercised the units on January 20, 2011 at a settlement price of $11.8444. A cash payment of $452,364 was made to the FDIC on January 21, 2011.

- The First National Bank of Olathe ("FNBO") - On August 12, 2011, the Bank acquired certain assets and assumed certain liabilities of FNBO, a full service community bank that was headquartered in Olathe, Kansas. The acquisition consisted of tangible assets at fair value of approximately $481.6 million and liabilities with a fair value of approximately $516.2 million. The FDIC will reimburse the Bank for 80% of losses up to $112.6 million, 0% of losses between $112.6 million and $148.9 million and 80% of losses in excess of $148.9 million with respect to the Covered Assets.

In conjunction with the FNBO acquisition, the Company provided the FDIC with a VAI whereby 1.0 million units were awarded to the FDIC at an exercise price of $13.59 per unit. The units were exercisable any time from August 19, 2011 until August 10, 2012. The units were exercised on October 31, 2011 at a settlement price of $15.8393. A cash payment of approximately $2.2 million was made to the FDIC on November 1, 2011.

On October 21, 2011, the Bank purchased certain assets and assumed certain deposit liabilities from BankLiberty of Liberty, Missouri. The Bank assumed $43.0 million in deposits associated with the BankLiberty branch located at 11401 Olive Boulevard, in the St. Louis suburb of Creve Coeur, Missouri. The deposits consisted of $2.6 million in demand deposits, $21.9 million in money market and other interest bearing deposits, and $18.6 million in certificates of deposit. The Bank also paid a deposit premium of $323,000 on these deposits and purchased $150,000 of personal property in the branch. The Bank executed a full-service sublease on approximately 6,556 square feet at the above address. Enterprise will operate the location as a full-service branch of the Bank.

2011 Capital Raise

On May 24, 2011, we issued 2,743,900 shares, or $35.0 million in common stock through a public offering. The shares in the offering were issued pursuant to a prospectus supplement filed with the Securities and Exchange Commission as part of the Company's effective registration statement. The net proceeds to the Company, after deducting underwriting discounts and commissions and offering expenses, was approximately $32.6 million. At June 30, 2011, approximately $20.0 million of the offering proceeds were injected into the Bank to support expected growth.

Available Information

Our website is 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 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.

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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 each of which constitutes a separate segment for purposes of our financial reporting.

Our banking segment offers a broad range of business and personal banking 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 wealth management segment includes the Company's trust operations and Missouri state tax credit brokerage activities. Enterprise Trust, a division of the Bank ("Enterprise Trust" or "Trust") provides financial planning, advisory, private banking, investment management and trust services to businesses, individuals, institutions and non-profit organizations. Services for businesses and institutions include investment management, retirement plans and management succession planning. Personal services include investment management, trust administration, estate planning, financial planning and retirement planning services. State tax credit brokerage activities consist of the acquisition of Missouri state tax credits and sale of these tax credits to clients. See Item 8. Note 20 - Segment reporting for more information about our segments.

Key components of our strategy include a focused and relationship-oriented distribution and sales approach, 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 banking officers who generally are highly experienced. 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, priced at or below alternative cost of funds.

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.

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. These specialty lending 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.
- Tax Credit Related Lending. We are a secured lender on affordable housing projects funded through the use of Missouri state low income housing tax credits. In addition, we provide leveraged loans on projects funded through the

Department of the Treasury CDFI New Markets Tax Credit program. In 2011, we were selected as one of 99 total allocatees, and one of only 18 banks, for New Markets Tax Credits. In this capacity, we will be responsible for allocating $35 million of New Markets Tax Credits to developers and projects.

- Tax Credit Brokerage. Our wealth management business acquires Missouri state tax credits from affordable housing development funds and sells the tax credits to wealth management clients and other individuals.

- Life Insurance Premium Finance. We specialize in financing high end whole life insurance premiums utilized in high net worth estate planning.
- 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, often creating a competitive advantage over larger, nationwide banks. Technology is also 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 ongoing, multiple-level formal 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 audit committee of our 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.

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.

St. Louis - We have five Enterprise banking facilities in the St. Louis metropolitan area. The St. Louis market enjoys a stable, diverse economic base and is ranked the 18th 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. We are the largest publicly-held, locally headquartered bank in this market.

Kansas City - At December 31, 2011, we had thirteen banking facilities in the Kansas City market, six of which were acquired in conjunction with the FNBO acquisition. In January 2012, we closed two branches related to our August 2011 acquisition of FNBO and currently operate eleven branches in the market. Kansas City is also an attractive private company market with over 50,000 privately held businesses and more than 30,000 households with investable assets of $1.0 million or more.

Phoenix - As described above, since December 2009, we have completed four FDIC-assisted transactions in the Phoenix market. At December 31, 2011, we had four full service branches in the Phoenix metropolitan area.

We believe the Phoenix market offers substantial 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 still exist, and we believe these factors should drive continued growth in that market long after the current real estate slump is over. Today, Phoenix has more than 90,000 privately held businesses and more than 70,000 households with investable assets over $1.0 million each.

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

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 Board, 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 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 Community Reinvestment.

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. The BHCA also prohibits a financial holding company generally from engaging directly or indirectly in activities other than those involving banking, activities closely related to banking that are permitted for a bank holding company, securities, insurance or merchant banking. Federal legislation permits bank holding companies to acquire control of banks throughout the United States.

United States Department of the Treasury Capital Purchase Program: On December 19, 2008, the Company received an investment of approximately $35.0 million from the U.S. Treasury under the Capital Purchase Program ("CPP" or the "Capital Purchase Program"). In exchange for the investment, the Company issued and sold to the U.S. Treasury (i) 35,000 shares of its Fixed Rate Cumulative Perpetual Preferred Stock, Series A, par value $.01 per share, having a liquidation preference of $1,000 per share (the "Series A Preferred Stock"), and (ii) a ten-year warrant to purchase up to 324,074 shares of common stock, par value $.01 per share, of the Company's common stock, at an initial exercise price of $16.20 per share, subject to certain anti-dilution and other adjustments (the "CPP Warrant").

The ability of the Company to declare or pay dividends or distributions on, or repurchase, redeem or otherwise acquire for consideration, shares of its other classes of stock is subject to restrictions in the event that the Company fails to declare and pay full dividends (or declare and set aside a sum sufficient for payment thereof) on its Series A Preferred Stock.

We are also subject to restrictions on the amount and type of compensation that we can pay our employees and are required to provide monthly reports to the U.S. Treasury regarding our lending activity during the time that the U.S. Treasury owns shares of the Series A Preferred Stock.

Dividend Restrictions: In addition to the restrictions imposed by the CPP on our ability to pay dividends to holders of our common stock, under Federal Reserve Board policies, bank holding companies may pay cash dividends on common stock only out of income available over the past year and only if prospective earnings retention is consistent with the 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 Board policy also provides that bank holding companies should not maintain a level of cash dividends that undermines the bank holding company's ability to serve as a source of strength to its banking subsidiaries.

Bank Subsidiary

At December 31, 2011, 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, and furniture and fixtures. The Bank is subject to periodic examination by the FDIC and Missouri Division of Finance.

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.

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.

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.

Limitations on Loans and Transactions: The Federal Reserve Act generally imposes certain limitations on extensions of credit and other transactions by and between banks that are members of the Federal Reserve and other affiliates (which includes any holding company of which a bank is a subsidiary and any other non-bank subsidiary of such holding company). Banks that are not members of the Federal Reserve are also subject to these limitations. Further, federal law prohibits a bank holding company and its subsidiaries from engaging in certain tie-in arrangements in connection with any extension of credit, lease or sale of property or the furnishing of services.

Deposit Insurance Fund: The FDIC establishes rates for the payment of premiums by federally insured banks for deposit insurance. The Deposit Insurance Fund (“DIF”) is maintained for commercial banks, with insurance premiums from the industry used to offset losses from insurance payouts when banks and thrifts fail.

Financial Regulatory Reform

On July 21, 2010, the President signed into law the Dodd-Frank Wall Street Reform and Consumer Protection Act (the “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. It requires various federal agencies to adopt a broad range of new rules and regulations, and to prepare numerous studies and reports for Congress. These studies could potentially result in additional legislative or regulatory action.

The following provisions have been implemented since the passage of the Dodd-Frank Act:

- The Dodd-Frank Act requires the Federal Reserve to apply consolidated capital requirements to depository institution holding companies that are no less stringent than those currently applied to depository institutions. Under these standards, trust preferred securities will be excluded from Tier 1 capital unless such securities were issued prior to May 19, 2010 by a bank holding company with less than $15 billion in assets. The Dodd-Frank Act additionally requires capital requirements to be countercyclical so that the required amount of capital increases in times of economic expansion and decreases in times of economic contraction, consistent with safety and soundness.
- In July 2011, the Consumer Financial Protection Bureau (the “CFPB”) began operations and has centralized responsibility for consumer financial protection including implementing, examining and enforcing compliance with federal consumer financial laws. The CFPB will have examination and primary enforcement authority with respect to depository institutions with $10 billion or more in assets. 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 CFPB will have authority to prevent unfair, deceptive or abusive practices in connection with the offering of consumer financial products. The Dodd-Frank Act authorizes the CFPB to establish certain minimum standards for the origination of residential mortgages including a determination of the borrower's ability to repay. In addition, the Dodd-Frank Act will allow borrowers to raise certain defenses to foreclosure if they receive any loan other than a “qualified mortgage” as defined by the CFPB. The Dodd-Frank Act permits states to adopt consumer protection laws and standards that are more stringent than those adopted at the federal level and, in certain circumstances, permits state attorney generals to enforce compliance with both state and federal laws and regulations.
- Creation of the Financial Stability Oversight Council that provides comprehensive monitoring to ensure the stability of our nation's financial system.
- Change of the assessment base for federal deposit insurance from the amount of insured deposits to consolidated assets less tangible capital, eliminated the ceiling on the size of the Deposit Insurance Fund (“DIF”), and increased the floor on the size of the DIF, which generally will require an increase in the level of assessments for institutions with assets in excess of $10 billion.
- Made permanent the $250,000 limit for federal deposit insurance and provides unlimited federal deposit insurance until January 1, 2013 for noninterest-bearing demand transaction accounts at all insured depository institutions.
- Implementation of corporate governance revisions, including executive compensation and proxy access by shareholders, which apply to all public companies, not just financial institutions.
- Repeal of the federal prohibitions on the payment of interest on demand deposits, thereby permitting depository institutions to pay interest on business transactions and other accounts.

On November 12, 2009, the FDIC adopted a final rule imposing a 13-quarter prepayment of FDIC premiums. As a result, the Bank prepaid $11.5 million in December 2009. Approximately $3.2 million and $3.5 million of this prepayment was expensed in 2011 and 2010, respectively.

Employees

At December 31, 2011, we had approximately 450 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 IA: 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 risks and uncertainties described below are not the only ones we face. Although we have significant risk management policies, procedures and verification processes in place, additional risks and uncertainties that management is not aware of or focused on or that management currently deems immaterial may also materially and adversely impair our business operations. 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

Various factors may cause our allowance for loan losses to increase.
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 continue to 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 or an increase in net loss and a reduction in capital, and may have a material adverse effect on our financial condition and results of operations.

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

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 continue to 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 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, because Kansas is a judicial foreclosure state, 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.

We have identified a material weakness in our internal control over financial reporting which could, if not remediated, result in additional material misstatements in our financial statements.
Our management is responsible for establishing and maintaining adequate internal control over our financial reporting, as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934. As disclosed in Item 9A, management identified a material weakness in our internal control over financial reporting related to accounting for loans we

acquired in FDIC assisted transactions. A material weakness is defined as a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of our annual or interim financial statements will not be prevented or detected on a timely basis. As a result of this material weakness, our management concluded that our internal control over financial reporting was not effective based on criteria set forth by the Committee of Sponsoring Organization of the Treadway Commission in Internal Control-An Integrated Framework. We are actively engaged in developing a remediation plan designed to address this material weakness. If

our remedial measures are insufficient to address the material weakness, or if additional material weaknesses or significant deficiencies in our internal control are discovered or occur in the future, our consolidated financial statements may contain material misstatements and we could be required to restate our financial results.

We face potential risks from litigation brought against the Company and the Bank.
We are from time to time involved in various lawsuits and legal proceedings. As discussed in “Legal Proceedings” in Part I, Item 3 of this Form 10-K, the Bank, along with other co-defendants, including a former President and Chief Executive Officer of the Bank's trust division, has been named as a defendant in two lawsuits filed by clients, or purported clients, of the Bank's trust division who invested in promissory notes issued by Distinctive Properties (UK) Limited, a company involved in the purchase and development of real estate in the United Kingdom. In one of the lawsuits, the plaintiffs allege that the investments in the notes were part of a multi-million dollar Ponzi scheme. The Company has also been named as a defendant in a lawsuit by a stockholder in a purported class action claim arising from the Restatement. While we cannot with certainty determine the potential outcome of this or any other 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 and results of operations and 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 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.

If our businesses do not perform well, we may be required to establish a valuation allowance against the deferred income tax asset, which could have a material adverse effect on our results of operations and financial condition.
Deferred income tax represents the tax effect of the differences between the book and tax basis of assets and liabilities. Deferred tax assets are assessed periodically by management to determine if they are realizable. If based on available information, it is more likely than not that the deferred income tax asset will not be realized, then a valuation allowance must be established with a corresponding charge to net income. As of December 31, 2011, the Company did not carry a valuation allowance against its deferred tax asset balance of $16.0 million. Future facts and circumstances may require a valuation allowance. Charges to establish a valuation allowance could have a material adverse effect on our results of operations and financial position.

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 and the Federal Reserve, and separately the FDIC as insurer of the Bank's deposits, have the authority to compel or restrict certain actions if 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.

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. Since 2008, we are also subject to supervision, regulation and investigation by the United States Department of the Treasury and the Office of the Special Inspector General for the Troubled Asset Relief Program ("TARP") by virtue of our participation in the CPP.

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 numbers 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.

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 cost savings. Any cost savings that are realized may be offset by losses in revenues or other charges to earnings.

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 (including goodwill) of the target company; and
- 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 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.

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.

Pursuant to our participation in the CPP, we adopted certain standards for executive compensation and corporate governance for the period during which the United States Department of the Treasury holds the equity issued pursuant to our participation in the CPP, including the common stock that may be issued pursuant to the CPP Warrant. These standards generally apply to our Chief Executive Officer, Chief Financial Officer and the three next most highly compensated senior executive officers, although certain restrictions apply to as many as (25) of our most highly compensated employees.

The restrictions severely limit the amount and types of compensation we can pay our executive officers and key employees, including a complete prohibition on any severance or other compensation upon termination of employment, significant caps on bonuses and retention payments. Such restrictions may impede our ability to attract and retain skilled people in our top management ranks.

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.

To allow us to timely respond to opportunities to raise capital, we filed a shelf registration statement on Form S-3 which became effective on September 29, 2011. Use of the Form S-3 requires, among other things, that an issuer has timely filed all of its reports under the Exchange Act for at least twelve months, subject only to exceptions for certain Form 8-K filings. We filed this Annual Report on Form 10-K late. As a result, we are not currently eligible to “draw down” on the Form S-3 or use Form S-3 for new registrations of securities. If we timely file all reports required under the Exchange Act in the future, we will regain eligibility for use of Form S-3 not earlier than April 2013. While the Company continues to have access to capital markets, our ineligibility to use Form S-3 means that it may be more difficult for us to effect public offering transactions and our range of available financing alternatives could be narrowed.
Recently enacted financial reform legislation and rules promulgated thereunder may adversely affect us.

The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (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 Bureau of Consumer Financial Protection (the “BCFP”), and will require the BCFP and other federal agencies to implement many new rules.

Among the many requirements in the Dodd-Frank Act for new banking regulations is a requirement for new capital regulations to be adopted. These regulations must be at least as stringent as, and may call for higher levels of capital than, current regulations. Generally, trust preferred securities will no longer be eligible as Tier 1 capital, but the Company's currently outstanding trust preferred securities will be grandfathered and its currently outstanding TARP preferred securities will continue to qualify as Tier 1 capital.

Certain provisions of the Dodd-Frank Act are expected to have a near term impact on us. For example, effective July 2011, the Dodd-Frank Act eliminated the federal prohibitions on paying interest on demand deposits, thus allowing businesses to have interest-bearing checking accounts. Depending on competitive responses, this significant change to existing law could have an adverse impact on our interest expense. The Dodd-Frank Act also permanently increased the general limit on deposit insurance for banks to $250,000 and non-interest-bearing transaction accounts and IOLTA accounts have unlimited deposit insurance through January 1, 2013.

The BCFP will have broad powers to supervise and enforce consumer protection laws. The BCFP will have 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.

The Dodd-Frank Act and the resulting regulations will likely affect the Company's business and operations in other ways which are difficult to predict at this time. However, compliance with these new laws and regulations will result in additional costs, which may adversely impact the Company's results of operations, financial condition or liquidity, any of which may impact the market price of the Company's common stock.

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; 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 the Series A Preferred Stock 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.
The terms of our Series A Preferred Stock provide that we may not pay dividends on or repurchase any shares of our common stock unless we have fully paid all required dividends on the Series A Preferred Stock. Although we expect to be able to pay all required dividends on the Series A Preferred Shares, there is no guarantee that we will be able to do so. These restrictions could have a negative effect on the value of 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.
Our outstanding preferred stock impacts net income available to our common stockholders and earnings per common share.
The dividends declared and the accretion of discount on our outstanding Series A Preferred Stock reduce the net income available to common stockholders and our earnings per common share. Our outstanding Series A Preferred Stock will also receive preferential treatment in the event of liquidation, dissolution or winding up of the Company.

Holders of the Series A Preferred Stock may, under certain circumstances, have the right to elect two directors to our board of directors.
In the event that we fail to pay dividends on the Series A Preferred Stock for an aggregate of six or more quarters (whether or not consecutive), the authorized number of directors then constituting our board of directors will be increased by two. Holders of the Series A Preferred Stock, together with the holders of any outstanding parity stock with like voting rights voting as a single class, will be entitled to elect the two additional directors at the next annual meeting (or at a special meeting called for the purpose of electing the preferred stock directors prior to the next annual meeting) and at each subsequent annual meeting until all accrued and unpaid dividends for all past dividend periods have been paid in full.

Holders of the Series A Preferred Stock have voting rights in certain circumstances.
Except as otherwise required by law and in connection with the rights to elect directors as described above, holders of the Series A Preferred Stock have voting rights in certain circumstances. So long as shares of the Series A Preferred Stock are outstanding, in addition to any other vote or consent of shareholders required by law or our amended and restated charter, the vote or consent of holders owning at least 66 2/3% of the shares of Series A Preferred Stock outstanding is required for (1) any authorization or issuance of shares ranking senior to the Series A Preferred Stock; (2) any amendment to the rights of the Series A Preferred Stock so as to adversely affect the rights, preferences,

privileges or voting power of the Series A Preferred Stock; or (3) consummation of any merger, share exchange or similar transaction unless the shares of Series A Preferred Stock remain outstanding, or if we are not the surviving entity in such transaction, are converted into or exchanged for preference securities of the surviving entity and the shares of Series A Preferred Stock remaining outstanding or such preference securities have such rights, preferences,

privileges and voting power as are not materially less favorable to the holders than the rights, preferences, privileges and voting power of the shares of Series A Preferred Stock.

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.

Additionally, the ownership interest of holders of our common stock will be diluted to the extent the CPP Warrant is exercised for up to 324,074 shares of our common stock. Although the United States Department of the Treasury has agreed not to vote any of the shares of common stock it receives upon exercise of the CPP Warrant, a transferee of any portion of the CPP Warrant or of any shares of common stock acquired upon exercise of the CPP Warrant is not bound by this restriction. In addition, the terms of the CPP Warrant include an anti-dilution adjustment, which provides that, if we issue common stock or securities convertible into or exercisable, or exchangeable for, common stock at a price that is less than 90% of the market price of such shares on the last trading day preceding the date we agree to sell such shares, the number of shares of our common stock to be issued would increase, and the per share price of the common stock to be purchased pursuant to the warrant would decrease.

In addition, to the extent options to purchase common stock under our employee stock option plans are exercised, 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 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 additional shares of our authorized preferred stock, there can be no assurance that the Company will not do so in the future.

ITEM 1B: UNRESOLVED SEC COMMENTS

Not applicable.

ITEM 2: PROPERTIES

Banking facilities
Our executive offices are located at 150 North Meramec, Clayton, Missouri, 63105. As of December 31, 2011, we had five banking locations and a support center in the St. Louis metropolitan area and four banking locations in the Phoenix metropolitan area. At December 31, 2011, we had thirteen banking facilities in the Kansas City metropolitan area, six of which were acquired in conjunction with the FNBO acquisition. In January 2012, we closed two branches related to our August 2011 acquisition of FNBO and currently operate eleven branches in the market. We own four of the facilities and lease the remainder. Most of the leases expire between 2012 and 2022 and include one or more renewal options of 5 years. One lease expires in 2028. All the leases are classified as operating leases. We believe all our properties are in good condition.

Wealth management facilities
Our Wealth Management operations are headquartered in approximately 11,000 square feet of commercial condominium space in Clayton Missouri located approximately two blocks from our executive offices. Enterprise Trust also has offices in one of our banking locations in Kansas City. Expenses related to the space used by Enterprise Trust are allocated to the Wealth Management segment.

ITEM 3: LEGAL PROCEEDINGS

The Company and its subsidiaries are, from time to time, parties to various legal proceedings arising out of their businesses. Other than those described below, 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.

Distinctive Notes
The Bank, along with other co-defendants has been named as a defendant in two lawsuits filed by persons alleging to be clients of the Bank's Trust division who invested in promissory notes (the "Distinctive Notes") issued by Distinctive Properties (UK) Limited ("Distinctive Properties"), a company involved in the purchase and development of real estate in the United Kingdom. The Company is unable to estimate a reasonably possible loss for the cases described below because the proceedings are in early stages and there are significant factual issues to be determined and resolved in each case. The Company denies plaintiffs' allegations and intends to vigorously defend the lawsuits.

Rosemann, et al. v. Martin Sigillito, et al.

In one of the lawsuits, the plaintiffs allege that the investments in the Distinctive Notes were part of a multi-million dollar Ponzi scheme. Plaintiffs allege to hold such promissory notes in accounts with the Trust division and that, among other things, the Bank was negligent, breached its fiduciary duties and breached its contracts. Plaintiffs also allege that the Bank violated the Racketeer Influenced and Corrupt Organizations Act (“RICO”). Plaintiffs, in the aggregate, are seeking damages from defendants, including the Bank, in excess of $25.0 million as well as their costs and attorneys’

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fees and trebled damages under RICO.

On June 6, 2011, the Bank filed a Motion to Dismiss the Complaint. On July 1, 2011, the United States moved to intervene in the case for purposes of securing a stay of the case pending completion of it's criminal case against two of the individual defendants. The stay was granted on August 4, 2011. On October 31, 2011, the court granted the Bank's motion to dismiss the plaintiffs claims that the Bank violated RICO and that the Bank breached its fiduciary duties to the plaintiffs. The court granted the plaintiffs leave to amend the dismissed claims. However, the court denied the Bank's motion to dismiss the claims that the Bank conspired with others to violate RICO, breached its agreements with the plaintiffs and that the Bank was negligent in performing its duties as custodian of the IRAs that held the Distinctive Notes. As a result of the stay, all discovery in the case may be put on hold for the duration of the criminal proceedings; however, further procedural actions may continue to be ruled upon by the court. On January 2, 2012, the plaintiffs filed their second amended complaint which reasserts the claim that the Bank violated RICO, however the claim of breach of fiduciary duty was not reasserted. Criminal proceedings in the case began on March 19, 2012. After a four week trial, the jury found Sigillito guilty of 20 counts of wire fraud, mail fraud, and conspiracy and money laundering. Following the verdict, the Judge lifted the stay and has scheduled a Rule 16 conference in the civil case for May 31, 2012. The Court is expected to set the case for trial at the Rule 16 conference.

BJD, LLC and Barbara Dunning v. Enterprise Bank & Trust, et. al.
The Bank has also been named as a defendant in this case, relating to BJD’s investment in the Distinctive Notes. Plaintiffs allege that the Bank, and the other defendants breached their fiduciary duties and were negligent in allowing plaintiffs to invest in the Distinctive Notes because the loan program was allegedly never funded and the assets of the borrower did not exist or were overvalued. Plaintiffs are seeking approximately $800,000 in damages, 9% interest, punitive damages, attorneys’ fees and costs.

On June 16, 2011, the Bank filed a motion to compel arbitration and stay proceedings in the Circuit Court. On July 11, 2011, the U.S. Attorney's Office moved to intervene in this case as well for purposes of seeking a stay of certain discovery pending completion of the above described criminal proceedings. The Court never formally issued a stay order; however, the conclusion of the criminal trial on April 13, 2012, renders the U.S. Attorney's motion moot. The Court has granted the Bank's motion to compel arbitration and stay proceedings and has scheduled a Case Management Conference for May 10, 2012.

William Mark Scott v. Enterprise Financial Services Corp, et. al.
On April 10, 2012, a putative class action was filed in the United States District Court for the Eastern District of Missouri captioned William Mark Scott v. Enterprise Financial Services Corp, Peter F. Benoist, and Frank H. Sanfilippo. The complaint asserts claims for violation of Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 on behalf of a putative class of purchasers of the Company's stock between April 20, 2010 and January 25, 2012, inclusive. The complaint alleges, among other things, that defendants allegedly made false and misleading statements and allegedly "failed to disclose that the Company was improperly recording income on loans covered under loss share agreements with the FDIC" and that, as a result, "the Company's financial statements were materially false and misleading at all relevant times." The action seeks unspecified damages and costs and expenses. The Company is unable to estimate a reasonably possible loss for the case because the proceeding is in an early stage and there are significant factual issues to be determined and resolved. The Company denies plaintiffs’ allegations and intends to vigorously defend the lawsuit.

ITEM 4: MINE SAFETY DISCLOSURES

Not applicable.

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PART II

ITEM 5: MARKET FOR COMMON STOCK AND RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASE 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 high and low sales prices for the common stock. There may have been other transactions at prices not known to the Company. As of April 13, 2012, the Company had 539 common stock shareholders of record and a market price of $11.51 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.

	2011				2010			
	4th Qtr	3rd Qtr	2nd Qtr	1st Qtr	4th Qtr	3rd Qtr	2nd Qtr	1st Qtr
Closing Price	$14.80	$13.59	$13.53	$14.07	$10.46	$9.30	$9.64	$11.06
High	16.45	15.25	15.00	14.10	10.98	10.97	11.88	12.28
Low	12.51	12.21	12.34	10.52	8.62	7.95	8.86	7.51
Cash dividends paid on common shares	0.0525	0.0525	0.0525	0.0525	0.0525	0.0525	0.0525	0.0525

Securities Authorized for Issuance Under Equity Compensation Plans
The following table provides information as of December 31, 2011, regarding securities issued and to be issued under our equity compensation plans that were in effect during the year ended December 31, 2011:

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding shares reflected in column (a)) (c)
Equity compensation plans approved by the Company's shareholders	798,984	$16.13	656,863
Equity compensation plans not approved by the Company's shareholders	—	—	—
Total	798,984 (1)	$16.13	656,863 (2)

(1) Includes the following:

- 16,590 shares of common stock to be issued upon exercise of outstanding stock options under the 1996 Stock Incentive Plan (Plan III);
-

- 86,200 shares of common stock to be issued upon exercise of outstanding stock options under the 1999 Stock Incentive Plan (Plan IV);
- 185,968 shares of common stock to be issued upon exercise of outstanding stock options under the 2002 Stock Incentive Plan (Plan V);
- 507,726 shares of common stock used as the base for grants of stock settled stock appreciation rights under the 2002 Stock Incentive Plan (Plan V);
- 2,500 shares of common stock to be issued upon exercise of outstanding stock options under the 1998 Nonqualified Plan.

(2) Includes the following:

- 637,241 shares of common stock available for issuance under the 2002 Stock Incentive Plan (Plan V);
- 19,622 shares of common stock available for issuance under the Non-management Director Stock Plan.

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. Holders of our Series A Preferred Stock originally issued to the U.S. Treasury on December 19, 2008, are entitled to cumulative dividends of 5% per annum. Dividends on the Series A Preferred Stock are currently payable at the rate of $1.8 million per annum. Dividends on the Series A Preferred Stock are prior to and in preference to any dividends payable on our common stock. Pursuant to the terms of the purchase agreement with the U.S. Treasury under the Capital Purchase Program, we may not pay dividends on our common stock unless we have fully paid all required dividends on the Series A Preferred Stock. 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. In addition, the Company currently plans to retain most of its earnings to strengthen its capital position and support modest balance sheet growth.

Use of Proceeds

On May 24, 2011, we issued 2,743,900 shares, or $35.0 million in common stock through a public offering. The shares in the offering were issued pursuant to a prospectus supplement filed with the Securities and Exchange Commission as part of the Company's effective registration statement. The net proceeds to the Company, after deducting underwriting discounts and commissions and offering expenses, was approximately $32.6 million. At June 30, 2011, approximately $20.0 million of the offering proceeds were injected into the Bank to support expected growth. The remainder will be used for general corporate purposes.

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, 2006 through December 31, 2011. 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, 2006 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.

	Period Ending December 31,					
Index	2006	2007	2008	2009	2010	2011
Enterprise Financial Services Corp	100.00	73.71	47.74	24.71	34.27	49.26
NASDAQ Composite	100.00	110.66	66.42	96.54	114.06	113.16
SNL Bank $1B-$5B	100.00	72.84	60.42	43.31	49.09	44.77

*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, 2011. 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.

	Years ended December 31,				
		As Restated(1)			
(in thousands, except per share data)	2011	2010	2009	2008	2007
EARNINGS SUMMARY:					
Interest income	$142,840	$116,394	$118,486	$127,021	$130,249
Interest expense	30,155	32,411	48,845	60,338	69,242
Net interest income	112,685	83,983	69,641	66,683	61,007
Provision for loan losses	16,103	33,735	40,412	26,510	5,120
Noninterest income	18,508	18,360	19,877	20,341	12,852
Noninterest expense	77,718	62,212	98,427	48,776	44,695
Income (loss) from continuing operations	37,372	6,396	(49,321)	11,738	24,044
Income tax expense (benefit) from continuing operations	11,949	823	(2,650)	3,672	8,098
Net income (loss) from continuing operations	25,423	5,573	(46,671)	8,066	15,946
Net income (loss)	$25,423	$5,573	$(47,955)	$1,848	$17,255
PER SHARE DATA:					
Basic earnings (loss) per common share:					
From continuing operations	$1.37	$0.21	$(3.82)	$0.63	$1.30
Total	1.37	0.21	(3.92)	0.14	1.41
Diluted earnings (loss) per common share:					
From continuing operations	1.34	0.21	(3.82)	0.63	1.27
Total	1.34	0.21	(3.92)	0.14	1.37
Cash dividends paid on common shares	0.21	0.21	0.21	0.21	0.21
Book value per common share	11.61	9.89	10.25	14.33	13.91
Tangible book value per common share	9.38	9.67	9.97	10.27	8.81
BALANCE SHEET DATA:					
Ending balances:					
Portfolio loans not covered under FDIC loss share	1,897,074	1,766,351	1,818,481	2,201,457	1,784,278
Portfolio loans covered under FDIC loss share at fair value	300,610	121,570	13,644	—	—
Allowance for loan losses	39,624	42,759	42,995	33,808	22,585
Goodwill	30,334	2,064	2,064	48,512	57,177
Intangibles, net	9,285	1,223	1,643	3,504	6,053
Assets	3,377,779	2,800,199	2,365,655	2,493,767	2,141,329
Deposits	2,791,353	2,297,721	1,941,416	1,792,784	1,585,013
Subordinated debentures	85,081	85,081	85,081	85,081	56,807

Borrowings	256,545	226,633	167,438	392,926	312,427
Shareholders' equity	239,565	179,801	163,912	214,572	172,515
Average balances:					
Loans not covered under FDIC loss share	1,819,536	1,782,023	2,097,028	2,001,073	1,599,596
Loans covered under FDIC loss share	232,363	71,152	1,244	—	—
Earning assets	2,766,240	2,260,858	2,334,697	2,125,581	1,723,214
Assets	3,096,147	2,454,023	2,462,237	2,298,882	1,856,466
Interest-bearing liabilities	2,377,044	1,957,390	2,025,339	1,883,904	1,469,258
Shareholders' equity	213,650	178,631	177,374	182,175	160,783

	Years ended December 31,				
		As Restated(1)			
(in thousands, except per share data)	2011	2010	2009	2008	2007
SELECTED RATIOS:					
Return on average common equity	12.67 %	2.12 %	(34.51)%	0.98 %	10.73 %
Return on average assets	0.74	0.13	(2.05)	0.08	0.93
Efficiency ratio	59.24	60.79	109.95	56.05	60.51
Average common equity to average assets	5.84	5.97	5.92	7.89	8.65
Yield on average interest-earning assets	5.21	5.19	5.15	6.04	7.63
Cost of interest-bearing liabilities	1.27	1.66	2.41	3.20	4.71
Net interest rate spread	3.94	3.53	2.74	2.84	2.92
Net interest rate margin	4.12	3.76	3.06	3.20	3.61
Nonperforming loans to total loans	1.89	2.46	2.10	1.61	0.71
Nonperforming assets to total assets	2.82	2.98	2.69	1.98	0.73
Net chargeoffs to average loans	0.94	1.83	1.42	0.76	0.13
Allowance for loan losses to total loans	1.80	2.26	2.35	1.54	1.27
Dividend payout ratio - basic	14.07	56.00	(5.62)	144.02	15.29

(1) See Note 24 - Restatement of Consolidated Financial Statements for more information.

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, 2011. 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

This overview of management's discussion and analysis highlights selected information in this document and may not contain all of the information that is important to you. For a more complete understanding of trends, events, commitments, uncertainties, liquidity, capital resources and critical accounting estimates, you should carefully read this entire document.

2011 Operating Results

For 2011, we reported net income of $25.4 million compared to net income of $5.6 million in 2010. After deducting preferred stock dividends, net income available to common shareholders was $22.9 million, or $1.34 per diluted share, compared to net income available to common shareholders of $3.1 million, or $0.21 per diluted share in 2010.

Acquisitions

On January 7, 2011, the Bank acquired certain assets and assumed certain liabilities of Legacy, a full service community bank that was headquartered in Scottsdale, Arizona. The acquisition consisted of tangible assets with fair values of approximately $128.0 million and liabilities of approximately $130.4 million. In addition, the Bank also acquired approximately $55.6 million of discretionary and $13.6 million of non-discretionary trust assets. The FDIC will reimburse the Bank for 80% of all losses on Covered Assets. In conjunction with the Legacy acquisition, the Company provided the FDIC with a Value Appreciation Instrument ("VAI") whereby 372,500 units were awarded to the FDIC at an exercise price of $10.63 per unit. The units were exercisable at any time from January 14, 2011 until January 6, 2012. The FDIC exercised the units on January 20, 2011 at a settlement price of $11.8444. A cash payment of $452,364 was made to the FDIC on January 21, 2011.

On August 12, 2011, the Bank acquired certain assets and assumed certain liabilities of FNBO, a full service community bank that was headquartered in Olathe, Kansas. The acquisition consisted of tangible assets at fair value of approximately $481.6 million and liabilities with a fair value of approximately $516.2 million. The FDIC will reimburse the Bank for 80% of losses up to $112.6 million, 0% of losses between $112.6 million and $148.9 million and 80% of losses in excess of $148.9 million with respect to the Covered Assets. In conjunction with the FNBO acquisition, the Company provided the FDIC with a VAI whereby 1.0 million units were awarded to the FDIC at an exercise price of $13.59 per unit. The units were exercisable any time from August 19, 2011 until August 10, 2012. The units were exercised on October 31, 2011 at a settlement price of $15.8393. A cash payment of approximately $2.2 million was made to the FDIC on November 1, 2011. The acquisition of FNBO added approximately $1.4 million of pre-tax earnings, or $0.05 of diluted earnings per share in 2011, including $900,000 of acquisition and conversion related costs.

On October 21, 2011, the Bank purchased certain assets and assumed certain deposit liabilities from BankLiberty of Liberty, Missouri. The Bank assumed $43.0 million in deposits associated with the BankLiberty branch located at 11401 Olive Boulevard, in the St. Louis suburb of Creve Coeur, Missouri. The deposits consisted of $2.6 million in demand deposits, $21.9 million in money market and other interest bearing deposits, and $18.6 million in certificates of deposit. The Bank also paid a deposit premium of $323,000 on these deposits and purchased $150,000 of personal

property in the branch. The Bank executed a full-service sublease on approximately 6,556 square feet at the above address. Enterprise will operate the location as a full-service branch of the Bank.

See Note 2 - Acquisitions and Note 6 - Portfolio Loans for more information.

Below are highlights of our Banking and Wealth Management segments. For more information on our segments, see Item 8, Note 20 - Segment Reporting. Unless otherwise noted, this discussion excludes discontinued operations.

Banking

For 2011, the Banking segment recorded net income of $29.1 million compared to net income of $10.4 million for 2010. Excluding the non-tax deductible goodwill impairment of $45.4 million, the Banking segment recorded net income of $2.2 million for 2009. Below is a summary of 2011:

- Loan demand - Portfolio loans were $2.2 billion at December 31, 2011, including $300.6 million of loans covered under FDIC shared-loss agreements ("Covered loans"). Portfolio loans, excluding the Covered loans ("Non-covered loans"), increased $130.7 million, or 7%, from December 31, 2010. We expect similar Non-covered loan growth in 2012 as business activity continues to improve and additional capacity from new hires takes effect.

Excluding Covered loans, Commercial and industrial loans increased $169.3 million, or 29%, since December 31, 2010, while Construction and residential real estate loans decreased $68.6 million, or, 18%, over the same time frame.

	December 31,					
(in thousands)	2011			2010		
Commercial and industrial	763,202	35	%	593,938	31	%
Commercial real estate - Investor Owned	477,154	22	%	444,724	24	%
Commercial real estate - Owner Occupied	334,416	15	%	331,544	18	%
Construction and land development	140,147	6	%	190,285	10	%
Residential real estate	171,034	8	%	189,484	10	%
Consumer & other	11,121	1	%	16,376	1	%
Portfolio loans covered under FDIC loss share	300,610	13	%	121,570	6	%
Total loan portfolio	2,197,684	100	%	1,887,921	100	%

- Deposit growth – Total deposits at December 31, 2011 were $2.8 billion, an increase of $493.6 million, or 21%, over December 31, 2010. Excluding brokered certificates of deposit, “core” deposits increased $523.0 million, or 24%, to $2.7 billion from December 31, 2010. Noninterest-bearing demand deposits increased $219.4 million, or 60%, in 2011 and represented 21% of total deposits at December 31, 2011, up from 16% at December 31, 2010. Management believes a portion of the growth in noninterest-bearing demand deposits is the result of the FDIC deposit guarantee and relatively low rates on non-guaranteed accounts. The Company has maintained a favorable deposit mix, with core deposits representing 96% of total deposits at December 31, 2011, compared to 93% in the prior year.

The FNB acquisition added $423.1 million in deposits in the third quarter of 2011. These deposits included $66.9 million in noninterest-bearing demand deposits, $123.6 million in money market and other interest-bearing transaction accounts, and $232.6 million in certificates of deposit.

- Asset quality – Nonperforming loans were $41.6 million, or 1.89%, of portfolio loans at December 31, 2011. The allowance for loan losses was $39.6 million, or 1.80%, of portfolio loans versus $42.8 million, or 2.26% of portfolio loans, at the end of 2010. In 2011, net charge-offs were $19.2 million, or 0.94% of average loans compared to $34.0 million of net charge-offs, or 1.83% of average loans in 2010.

Provision for loan losses not covered under FDIC loss share was $13.3 million for 2011 compared to $33.7 million for 2010. The decrease in provision was primarily due to fewer loan risk rating downgrades. Excluding the Covered loans, the Company's watch list credits as a percentage of total loans declined almost a full percentage point in 2011. The Company continues to monitor loan portfolio risk closely. See Provision for Loan Losses and Nonperforming Assets below for more information. The Company recorded $2.8 million in provision for loan losses covered under FDIC loss share agreements in 2011. This impact was partially offset through noninterest income by an increase in the FDIC loss share receivable.

- Net Interest Rate Margin – Our fully tax-equivalent net interest rate margin was 4.12% for 2011 versus 3.76% for 2010. The net interest margin was favorably impacted by lower deposit costs, and the net interest income generated by the loans acquired in the FDIC-assisted acquisitions in 2010 and 2011. For 2011, the net interest rate margin, less the FDIC loss share loans, related nonearning assets and acquired deposits, was 3.42% compared to 3.53% for 2010.

We expect our 2012 net interest margin will be 4% or more based on a better earning asset mix, the full year impact of the FNBO acquisition and continued discipline on funding costs. We expect continued volatility in the yield on Covered loans, especially due to unanticipated prepayment activity. In 2011, there was approximately $14.3 million of accelerated discount recognized in interest income on Covered loans due primarily to prepayments. After recognizing any related offsets to the indemnification asset through noninterest income, pre-tax earnings were positively impacted by $6.8 million in 2011. In addition, the quarterly re-measurement of cash flows from Covered loans can impact the prospective yield on Covered loans and adjustments to the indemnification asset.

- Noninterest expenses and efficiency ratio – Noninterest expense increased $15.5 million, or 25%, in 2011. The increase over the prior year period was primarily due to increases in salaries and benefits, occupancy, data processing and other operating expenses related to the 2011 acquisitions. The Company's efficiency ratio, which measures noninterest expense as a percentage of total revenue, for 2011 was 59.2% compared to 60.8% for 2010.

Wealth Management

The Wealth Management segment is comprised of Enterprise Trust and our state tax credit brokerage activities. Wealth Management is a strategic line of business consistent with our Company mission of “guiding our clients to a lifetime of financial success.” It is a driver of fee income and is intended to help us diversify our dependency on bank spread income.

For 2011, the Wealth Management segment recorded net income of $1.3 million compared to a net loss of $178,000 in 2010.

- Trust revenues - Revenues from the Trust division increased $427,000, or 7%, over 2010. The increase in Trust revenue was primarily attributable to the impact of the additional Legacy and FNBO trust business. Trust assets under administration were $1.6 billion at December 31, 2011 compared to $1.5 billion at December 31, 2010, a 7% increase over one year ago.

- State tax credit brokerage activities - In 2011, revenue from state tax credit brokerage activities were $3.6 million, a $1.4 million, or 62% increase over 2010. The increase is primarily due to a $1.7 million increase from the sale of state tax credits.

RESULTS OF CONTINUING OPERATIONS ANALYSIS

Net Interest Income

Comparison of 2011 vs. 2010

Net interest income is the primary source of the Company's revenue. Net interest income is the difference between interest income on earning assets, such as loans and securities, and the interest expense on interest-bearing deposits and other borrowings used to fund interest earning and other assets. The amount of net interest income is affected by changes in interest rates and by the amount and composition of interest-earning assets and interest-bearing liabilities, such as the mix of fixed vs. variable rate loans. When and how often loans and deposits mature and re-price also impacts net interest income.

Net interest spread and net interest rate margin are utilized to measure and explain changes in net interest income. Interest rate spread is the difference between the yield on interest-earning assets and the rate paid for interest-bearing liabilities that fund those assets. The net interest rate margin is expressed as the percentage of net interest income to average interest-earning assets. The net interest rate margin exceeds the interest rate spread because noninterest-bearing sources of funds (net free funds), principally demand deposits and shareholders' equity, also support earning

assets.

Net interest income (on a tax-equivalent basis) increased $29.0 million, or 34%, from $85.0 million for 2010 to $114.0 million for 2011. Total interest income increased $26.7 million while total interest expense decreased $2.3 million.

Average interest-earning assets were $2.8 billion in 2011, an increase of $505.4 million, or 22%, from 2010. Loans accounted for the majority of the growth, increasing by $198.7 million, or 11%, to $2.1 billion. Securities and short-term investments increased $306.7 million, or 75% to $714.3 million from 2010. Interest income increased $30.9 million due to volume and decreased by $4.2 million due to the impact of rates, for a net increase of $26.7 million versus 2010.

Average interest-bearing liabilities increased $419.7 million, or 21%, to $2.4 billion compared to $2.0 billion for 2010. The increase in interest-bearing liabilities primarily resulted from a $397.8 million increase in interest-bearing deposits. For 2011, interest expense on interest-bearing liabilities increased $4.3 million due to volume while the impact of declining rates decreased interest expense on interest-bearing liabilities by $6.5 million, for a net decrease of $2.3 million versus 2010. See “Liquidity and Capital Resources” for more information.

For the year ended December 31, 2011, the tax-equivalent net interest rate margin was 4.12% compared to 3.76% for 2010. The net interest margin was favorably impacted by lower deposit costs and the net interest income generated by the loans acquired in the Legacy and FNBO acquisitions. For 2011, the net interest rate margin, less the FDIC loss share loans, related nonearning assets and acquired deposits, was 3.42% compared to 3.53% for 2010.

Comparison of 2010 vs. 2009

Net interest income (on a tax-equivalent basis) increased $13.6 million, or 19%, from $71.4 million for 2009 to $85.0 million for 2010. Total interest income decreased $2.8 million while total interest expense decreased $16.4 million.

Average interest-earning assets were $2.3 billion in 2010, a decrease of $73.8 million, or 3%, from 2009. Loans accounted for the majority of the reduction, decreasing by $245.1 million, or 12%, to $1.9 billion. The decrease in loans was partially offset by an increase in securities and short-term investments of $171.3 million, or 72% to $407.7 million. Interest income decreased $4.4 million due to volume declines and increased by $1.6 million due to the impact of rates, for a net decrease of $2.8 million versus 2009.

Average interest-bearing liabilities decreased $67.9 million, or 3%, to $2.0 billion compared to $2.0 billion for 2009. The decrease in interest-bearing liabilities resulted from a $199.3 million decrease in borrowed funds. The decrease in borrowed funds was partially offset by a $131.3 million increase in interest-bearing deposits. For 2010, interest expense on interest-bearing liabilities decreased $4.8 million due to volume while the impact of declining rates decreased interest expense on interest-bearing liabilities by $11.6 million, for a net decrease of $16.4 million versus 2009. See “Liquidity and Capital Resources” for more information.

For the year ended December 31, 2010, the tax-equivalent net interest rate margin was 3.76% compared to 3.06% for 2009. The net interest margin was favorably impacted by lower deposit costs and the net interest income generated by the loans acquired in the Home National asset purchase.

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.

	For the years ended December 31,								
	2011			2010			2009		
(in thousands)	Average Balance	Interest Income/Expense	Average Yield/ Rate	Average Balance	Interest Income/Expense	Average Yield/ Rate	Average Balance	Interest Income/Expense	Average Yield/ Rate
Assets									
Interest-earning assets:									
Taxable loans (1)	$1,786,601	$95,520	5.35 %	$1,751,459	$95,798	5.47 %	$2,043,202	$109,413	5.35 %
Tax-exempt loans (2)	32,935	2,542	7.72	30,564	2,621	8.58	53,826	4,868	9.04
Covered loans (3)	232,363	32,926	14.17	71,152	10,924	15.35	1,244	38	3.05
Total loans	2,051,899	130,988	6.38	1,853,175	109,343	5.90	2,098,272	114,319	5.45
Taxable investments in debt and equity securities	473,620	11,510	2.43	276,493	7,458	2.70	172,815	5,778	3.34
Non-taxable investments in debt and equity securities (2)	22,434	1,086	4.84	5,132	245	4.77	634	37	5.84
Short-term investments	218,287	562	0.26	126,058	380	0.30	62,976	136	0.22
Total securities and short-term investments	714,341	13,158	1.84	407,683	8,083	1.98	236,425	5,951	2.52
Total interest-earning assets	2,766,240	144,146	5.21	2,260,858	117,426	5.19	2,334,697	120,270	5.15
Noninterest-earning assets:									
Cash and due from banks	15,801			11,800			23,959		
Other assets	357,993			227,038			146,674		
Allowance for loan losses	(43,887)			(45,673)			(43,093)		
Total assets	$3,096,147			$2,454,023			$2,462,237		
Liabilities and Shareholders' Equity									
Interest-bearing liabilities:									
Interest-bearing transaction accounts	$212,257	$811	0.38 %	$190,275	$847	0.45 %	$122,563	$662	0.54 %

Money market accounts	997,415	7,987	0.80	701,360	6,245	0.89	636,350	6,079	0.96
Savings	27,106	112	0.41	10,022	35	0.35	9,147	35	0.38
Certificates of deposit	847,057	12,748	1.50	784,369	15,740	2.01	786,631	23,427	2.98
Total interest-bearing deposits	2,083,835	21,658	1.04	1,686,026	22,867	1.36	1,554,691	30,203	1.94
Subordinated debentures	85,081	4,515	5.31	85,081	4,954	5.82	85,081	5,171	6.08
Borrowed funds	208,128	3,982	1.91	186,283	4,590	2.46	385,567	13,471	3.49
Total interest-bearing liabilities	2,377,044	30,155	1.27	1,957,390	32,411	1.66	2,025,339	48,845	2.41
Noninterest bearing liabilities:									
Demand deposits	494,609			305,887			250,435		
Other liabilities	10,844			12,115			9,089		
Total liabilities	2,882,497			2,275,392			2,284,863		
Shareholders' equity	213,650			178,631			177,374		
Total liabilities & shareholders' equity	$3,096,147			$2,454,023			$2,462,237		
Net interest income		$113,991			$85,015			$71,425	
Net interest spread			3.94 %			3.53 %			2.74 %
Net interest rate margin (4)			4.12			3.76			3.06

(1) Average balances include non-accrual loans. The income on such loans is included in interest but is recognized only upon receipt. Loan fees, net of amortization of deferred loan origination fees and costs, included in interest income are approximately $1,029,000, $1,440,000 and $1,626,000 for the years ended December 31, 2011, 2010, and 2009, respectively.

(2) Non-taxable income is presented on a fully tax-equivalent basis using a 36% tax rate. The tax-equivalent adjustments were $1,306,000, $1,032,000, and $1,784,000 for the years ended December 31, 2011, 2010, and 2009, respectively.
(3) Covered loans are loans covered under FDIC shared-loss agreements and are recorded at fair value.
(4) Net interest income divided by average total interest-earning assets.

Rate/Volume

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

	2011 compared to 2010			2010 compared to 2009		
	Increase (decrease) due to			Increase (decrease) due to		
(in thousands)	Volume(1)	Rate(2)	Net	Volume(1)	Rate(2)	Net
Interest earned on:						
Taxable loans	$1,902	$(2,180)	$(278)	$(15,915)	$2,300	$(13,615)
Nontaxable loans (3)	194	(273)	(79)	(2,007)	(240)	(2,247)
Covered loans	22,907	(905)	22,002	10,149	737	10,886
Taxable investments in debt and equity securities	4,855	(803)	4,052	2,960	(1,280)	1,680
Nontaxable investments in debt and equity securities (3)	838	3	841	216	(8)	208
Short-term investments	244	(62)	182	175	69	244
Total interest-earning assets	$30,940	$(4,220)	$26,720	$(4,422)	$1,578	$(2,844)
Interest paid on:						
Interest-bearing transaction accounts	$92	$(128)	$(36)	$317	$(132)	$185
Money market accounts	2,422	(680)	1,742	596	(430)	166
Savings	70	7	77	3	(3)	—
Certificates of deposit	1,182	(4,174)	(2,992)	(67)	(7,620)	(7,687)
Subordinated debentures	—	(439)	(439)	—	(217)	(217)
Borrowed funds	497	(1,105)	(608)	(5,656)	(3,225)	(8,881)
Total interest-bearing liabilities	4,263	(6,519)	(2,256)	(4,807)	(11,627)	(16,434)
Net interest income	$26,677	$2,299	$28,976	$385	$13,205	$13,590

(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 36% tax rate.
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.

Provision for loan losses.

The provision for loan losses not covered under FDIC loss share was $13.3 million for 2011 compared to $33.7 million for 2010 and $40.4 million for 2009. The decline in the provision for loan losses since 2011 is due to lower levels of adverse risk rating changes and trends in nonperforming loans.

For Covered loans, the Company re-measures contractual and expected cashflows on a quarterly basis. When the re-measurement process results in a decrease in expected cash flows due to an increase in expected credit losses, impairment is recorded. As a result of this impairment, the FDIC loss share receivable is increased to reflect

anticipated future cash to be received from the FDIC. The amount of the increase is determined based on the specific loss share agreement, but is generally 80% of the losses. In the third quarter of 2011, an impairment of $2.7 million was recorded in the provision for loan losses covered under FDIC loss share for certain loan pools covered under loss share which was partially offset through noninterest income by an increase in the FDIC loss share receivable. In the fourth quarter of

2011, this impairment reversed, but was offset by impairment on other loan pools covered under loss share. The FDIC loss share receivable was adjusted accordingly.

See the sections below captioned “Loans” And “Allowance for Loan Losses” for more information on our loan portfolio and asset quality.

Noninterest Income

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

	Years ended December 31,				
(in thousands)	2011	2010	2009	Change 2011 over 2010	Change 2010 over 2009
Wealth Management revenue	$6,841	$6,414	$4,524	$427	$1,890
Service charges on deposit accounts	5,091	4,739	5,012	352	(273)
Other service charges and fee income	1,679	1,128	963	551	165
Sale of other real estate	862	79	(436)	783	515
State tax credit activity, net	3,645	2,250	1,035	1,395	1,215
Sale of securities	1,450	1,987	955	(537)	1,032
Change in FDIC loss share receivable	(3,494)	99	—	(3,593)	99
Extinguishment of debt	—	—	7,388	—	(7,388)
Miscellaneous income	2,434	1,664	436	770	1,228
Total noninterest income	$18,508	$18,360	$19,877	$148	$(1,517)

Comparison 2011 vs. 2010

Noninterest income increased $148,000, or 1% in 2011 compared to 2010. Our ratio of noninterest income to total revenue for 2011 was 14%, compared to 18% in 2010.

Wealth Management revenue from the Trust division increased $427,000, or 7%. The increase in Trust revenue was primarily attributable to the impact of the additional Legacy and FNBO trust business. Assets under administration were $1.6 billion at December 31, 2011, a $104.0 million, or 7% increase from one year ago.

In 2011, we sold $44.6 million of other real estate at a gain of $862,000. In 2010, we sold $26.0 million of other real estate at a gain of $79,000.

Gains from state tax credit brokerage activities were $3.6 million in 2011, compared to $2.3 million in 2010, an increase of $1.4 million. The increase is due to a $1.7 million increase from the sale of state tax credits to clients, and a $905,000 increase in the fair value adjustment on the related interest rate caps used to economically hedge the tax credits partially offset by a $1.2 million negative fair value adjustment on the tax credit assets.

In 2011, the Company purchased approximately $431.4 million in securities primarily in U.S. Government sponsored enterprises and Residential mortgage-backed securities and sold approximately $84.5 million of securities realizing a gain of $1.5 million on these sales.

The decrease in income related to the FDIC loss share receivable was primarily due to loan pay offs in which the losses on the loans were less than expected along with lower loss expectations on certain loan pools. To correlate with

the new projected loss amounts, the FDIC loss share receivable must be reduced. In 2012, absent any changes based on the results of the quarterly re-measurement process, the Company anticipates continued lower losses in certain loan pools. These lower loss expectations will reduce the accretion on the FDIC loss share receivable and may result in negative accretion.

The increase in Miscellaneous income was primarily due to $313,000 in fee income earned related to the allocation of New Market Tax Credits to developers and projects along with distributions from private equity fund investments.

Comparison 2010 vs. 2009
The 2009 results include a $7.4 million pre-tax gain from the extinguishment of debt. Excluding the gain on extinguishment of debt, noninterest income increased $5.9 million, or 47%, during 2010.

Wealth Management revenue from the Trust division increased $1.9 million, or 42%. The increase in revenue was attributable to higher account asset values, several estate planning-related insurance sales and generally improving sales momentum in the Trust organization. In 2010, we elected to record Wealth Management revenue on a gross basis resulting in a $971,000 increase in Wealth Management revenue which was offset by a related $971,000 increase in Other expenses. Assets under administration were $1.499 billion at December 31, 2010, a $219 million, or 17% increase from one year ago primarily due to higher asset values from stronger financial markets.

In 2010, we sold $26.0 million of other real estate at a gain of $79,000. In 2009, we sold $22.3 million of other real estate at a loss of $436,000.

Gains from state tax credit brokerage activities were $2.3 million in 2010, compared to $1.0 million in 2009. The increase is due to a $142,000 increase from the sale of state tax credits to clients, and a $3.0 million positive fair value adjustment on the tax credit assets offset by a $1.9 million decrease in the fair value adjustment on the related interest rate caps used to economically hedge the tax credits.

In 2010, the Company elected to reposition a portion of the investment portfolio and sold approximately $127.0 million of securities realizing a gain of $2.0 million on these sales. With the proceeds from securities sales and maturities and excess cash, we purchased approximately $323.8 million in mortgage backed securities, including collateralized mortgage obligations, government sponsored agency debentures, and federally tax free municipal securities.

The increase in Miscellaneous income was primarily due to $776,000 of income on bank-owned life insurance policies, and $524,000 related to two interest rate swaps terminated by the Company in 2009.

Noninterest Expense

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

(in thousands)	Years ended December 31, 2011	2010	2009	Change 2011 over 2010	Change 2010 over 2009
Employee compensation and benefits	36,839	28,316	25,969	8,523	2,347
Occupancy	5,001	4,297	4,709	704	(412)
Furniture and equipment	1,601	1,393	1,425	208	(32)
Data processing	3,159	2,234	2,147	925	87
Communications	636	554	556	82	(2)
Director related expense	599	607	459	(8)	148
Meals and entertainment	1,747	1,258	1,037	489	221
Marketing and public relations	1,063	902	504	161	398
FDIC and other insurance	4,119	4,402	4,204	(283)	198
Amortization of intangibles	999	420	482	579	(62)
Goodwill impairment charges	—	—	45,377	—	(45,377)
Postage, courier, and armored car	909	769	772	140	(3)
Professional, legal, and consulting	3,138	1,736	2,278	1,402	(542)
Loan, legal and other real estate expense	10,703	9,941	4,788	762	5,153
Other taxes	675	635	566	40	69
Other	6,530	4,748	3,154	1,782	1,594
Total noninterest expense	$77,718	$62,212	$98,427	$15,506	$(36,215)

Comparison 2011 vs. 2010

Noninterest expense increased $15.5 million, or 25%, in 2011. The Company's efficiency ratio, which measures noninterest expense as a percentage of total revenue, for 2011 was 59.2% compared to 60.8% for 2010.

Employee compensation and benefits. Employee compensation and benefits increased $8.5 million, or 30%, over 2010. Employee compensation and benefits increased primarily due to staff additions to support our Kansas and Arizona acquisition activity and higher variable compensation accruals.

All other expense categories. All other expense categories increased $7.0 million, or 21%, over 2010. With the exception of professional, legal and consulting and loan, legal and other real estate expenses, most categories of expenses were relatively flat year over year.

Occupancy expense and data processing increases were due to the addition of new branches as part of our acquisition activity in 2011.

Professional, legal and consulting increased $1.4 million due to litigation defense costs, fees related to the FNBO acquisition, and various consulting expenses related to new business activities and regulatory compliance. Loan, legal and other real estate expenses increased $762,000 due to increased levels of other real estate properties. Other real estate expenses for items such as utilities, legal fees and insurance increased $1.8 million over 2010. These expenses were partially offset by a $930,000 decrease in expenses related to writedowns on other real estate.

In 2012, the Company expects noninterest expenses to average $20 to $22 million per quarter as loan collection expenses on Covered assets remain elevated and the full year impact of compensation expense for the FNBO acquisition and expenses for other new initiatives are realized.

Comparison 2010 vs. 2009
Noninterest expense decreased $36.2 million, or 37%, in 2010. The decrease was primarily due to a $45.4 million

goodwill impairment charge associated with the banking segment in 2009. Excluding the goodwill impairment charge, noninterest expenses increased $9.2 million, or 17%. The Company's efficiency ratio, which measures noninterest expense as a percentage of total revenue, for 2010 was 60.8%. Excluding the goodwill impairment charge, the efficiency ratio was 59.3% in 2009.

Employee compensation and benefits. Employee compensation and benefits increased $2.3 million, or 9%, over 2009. Employee compensation and benefits increased primarily due to the recruitment of several prominent St. Louis bankers, higher variable compensation accruals, and staff additions to support our Arizona acquisition activity.

All other expense categories. Excluding the goodwill impairment charge, all other expense categories increased $6.8 million, or 25%, over 2009. With the exception of loan, legal and other real estate expenses, most categories of expenses were relatively flat year over year.

Occupancy expense decreases were due to lower amortization of leasehold improvements in 2010.

Loan, legal and other real estate expenses increased $5.2 million due to increased levels of nonperforming loans and other real estate properties. Approximately, $3.2 million of the increase represents fair value writedowns on other real estate. Other real estate expenses for items such as utilities, legal fees and insurance increased $1.1 million over 2009. Approximately $278,000 of the increase was related to estimated losses attributable to the unadvanced commitments on impaired loans.

In 2010, we elected to record Wealth Management revenue on a gross basis resulting in a $971,000 increase in Other expenses offset by a related $971,000 increase in Wealth Management revenue. Other expenses also include a $250,000 accrual for a potential loss on a depository account.

Discontinued Operations

On January 20, 2010, we sold Millennium Brokerage Group, LLC, a wholly owned life insurance subsidiary, to an investor group led mostly by former managers of Millennium for $4.0 million in cash, resulting in a $1.6 million pre-tax loss recognized in 2009. As a result of the sale, we have reclassified the results of Millennium for 2009 and prior periods to discontinued operations. The amount of the loss on the sale is primarily due to the write-off of the remaining goodwill associated with the Millennium reporting unit.

For 2009, net loss from discontinued operations was $1.3 million, compared to a net loss of $6.2 million from discontinued operations in 2008. The 2008 loss includes $9.2 million of pre-tax goodwill impairment charges and lower levels of paid premium sales and lower sales margins which significantly reduced Millennium's operating results.

Income Taxes

In 2011, the Company recorded income tax expense of $11.9 million on pre-tax income of $37.4 million, resulting in an effective tax rate of 32.0%. The following items were included in Income tax expense (benefit) and impacted the 2011 effective tax rate:

- the expiration of the statute of limitations for the 2007 tax year warranted the release of $306,000 of reserves related to certain state tax positions;
- recognition of federal tax benefits of $729,000 related to low income housing tax credits from limited partnership interests.

In 2010, the Company recorded income tax expense of $0.8 million on pre-tax income of $6.4 million, resulting in an effective tax rate of 12.9%. The following items were included in Income tax expense (benefit) and impacted the 2010 effective tax rate:

- the expiration of the statute of limitations for the 2006 tax year warranted the release of $341,000 of reserves related to certain state tax positions;
- recognition of federal tax benefits of $729,000 related to low income housing tax credits from limited partnership interests.

FINANCIAL CONDITION

Comparison for December 31, 2011 and 2010
Total assets at December 31, 2011 were $3.4 billion compared to $2.8 billion at December 31, 2010, an increase of $577.6 million, or 21%. Acquisitions and organic growth drove the increase which included a $309.8 million increase in portfolio loans, a $231.6 million increase in securities available for sale, and a $96.8 million increase in the FDIC loss share receivable.

At December 31, 2011, portfolio loans totaled $2.2 billion, an increase of $309.8 million, or 16% from December 31, 2010. For the year, the Covered loans increased $179.0 million to $300.6 million, while Non-covered loans increased by $130.7 million, or 7% .

Strong core deposit growth in 2011, led to significant increases in cash. A portion of the cash was used to increase the available for sale securities portfolio. Securities available for sale were $593.2 million at December 31, 2011 compared to $361.5 million at December 31, 2010. In 2011, securities purchases included government sponsored agency debentures, mortgage backed securities, including collateralized mortgage obligations, and federally tax free municipal securities.

At December 31, 2011, the FDIC loss share receivable included $12.5 million due from the FDIC pursuant to the First Amendment to Purchase and Assumption Agreement with the FDIC as Receiver for FNBO. For more information, see the Form 8-K filed with the SEC on March 22, 2012.

At December 31, 2011, Other assets included $21.5 million of bank-owned life insurance and $5.5 million of prepaid FDIC insurance.

At December 31, 2011, deposits were $2.8 billion, an increase of $493.6 million, or 21%, from $2.3 billion at December 31, 2010. The FNB acquisition added $423.1 million in deposits in the third quarter of 2011. These deposits included $66.9 million in noninterest-bearing demand deposits, $123.6 million in money market and other interest-bearing transaction accounts, and $232.6 million in certificates of deposit.

Other borrowings at December 31, 2011 and 2010 represent customer repurchase agreements.

On May 24, 2011, the Company issued 2,743,900 shares, or $35.0 million in common stock through a public offering. The net proceeds to the Company, after deducting underwriting discounts and commissions and offering expenses, was approximately $32.6 million.

On January 25, 2010, the Company completed the sale of 1,931,610 shares, or $15.0 million of its common stock in a private placement offering. The net proceeds to the Company, after deducting underwriting discounts and commissions and offering expenses, was approximately $14.9 million.

Loans
Non-covered portfolio loans less unearned loan fees, increased $130.7 million, or 7%, during 2011. Non-covered Commercial & Industrial loans increased $169.3 million, or 28%, during the year and represent 40% of the loan portfolio at December 31, 2011. The Company's lending strategy emphasizes commercial, residential real estate, and commercial real estate loans to small and medium sized businesses and their owners in the St. Louis, Kansas City and Phoenix metropolitan markets. Consumer lending, including residential real estate, is minimal. Payoffs and paydowns, along with net charge-offs contributed to the decline in loan balances.

A common underwriting policy is employed throughout the Company. Lending to small and medium sized businesses is riskier from a credit perspective than lending to larger companies, but the risk is appropriately considered with higher loan pricing and ancillary income from cash management activities. As additional risk mitigation, the Company will generally hold only $12.0 million or less of aggregate credit exposure (both direct and indirect) with one borrower, in

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spite of a legal lending limit of over $68 million. There are seven borrowing relationships where we have committed more than $10.0 million with the largest being a $15.0 million line of credit with minimal usage. For the $1.9 billion loan portfolio, the Company's average loan relationship size was just under $1.0 million, and the average note size is approximately $500,000.

The Company also buys and sells loan participations with other banks to help manage its credit concentration risk. At December 31, 2011, the Company had purchased loan participations of $305.8 million ($166.5 million outstanding) and had sold loan participations of $398.7 million ($310.5 million outstanding). Approximately 71 borrowers make up the participations purchased, with an average outstanding loan balance of $1.6 million. Seventeen relationships, or $62.0 million of the $166.5 million in participations purchased, met the definition of a “Shared National Credit”; however, only two of the relationships, or $12.0 million, were considered out of our 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.

	December 31,				
(in thousands)	2011	2010	2009	2008	2007
Commercial and industrial	$763,202	$593,938	$553,988	$675,216	$549,479
Real Estate:					
Commercial	811,570	776,268	817,332	887,963	720,072
Construction and land development	140,147	190,285	221,397	378,092	301,710
Residential	171,034	189,484	209,743	235,019	175,258
Consumer and other	11,121	16,376	16,021	25,167	37,759
Total Portfolio loans not covered under FDIC loss share	1,897,074	1,766,351	1,818,481	2,201,457	1,784,278
Portfolio loans covered under FDIC loss share	300,610	121,570	13,644	—	—
Total Loans	$2,197,684	$1,887,921	$1,832,125	$2,201,457	$1,784,278

	December 31,									
(in thousands)	2011		2010		2009		2008		2007	
Commercial and industrial	40.2	%	33.6	%	30.5	%	30.7	%	30.8	%
Real Estate:										
Commercial	42.8	%	43.9	%	44.9	%	40.3	%	40.4	%
Construction and land development	7.4	%	10.8	%	12.2	%	17.2	%	16.9	%
Residential	9.0	%	10.7	%	11.5	%	10.7	%	9.8	%
Consumer and other	0.6	%	1.0	%	0.9	%	1.1	%	2.1	%
Total Portfolio loans not covered under FDIC loss share	100.0	%	100.0	%	100.0	%	100.0	%	100.0	%

Commercial and industrial loans are made based on the borrower's character, experience, general credit strength, and ability to generate cash flows for repayment from income sources, 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. Commercial and industrial loans are primarily made to borrowers operating within the manufacturing industry.

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

Approximately $305.5 million, or 38%, of the Non-covered 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, typically meet 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. Approximately $42.5 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. Given the weak demand and stress in both the residential and commercial real estate markets, the Company reduced the level of these loan types in 2011.

Residential real estate loans include residential mortgages, which are loans that, due to size, 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 represent loans to individuals on both a secured and unsecured basis. Credit risk is mitigated by thoroughly reviewing the creditworthiness of the borrowers prior to origination.

Following is a further breakdown of our loan categories using Call report codes at December 31, 2011 and 2010:

	% of portfolio 2011			2010
	Portfolio Loans not Covered under FDIC loss share	Portfolio Loans Covered under FDIC loss share	Total	Total
Real Estate:				
Construction & Land Development	7 %	22 %	9 %	12 %
Commercial Owner Occupied				
Commercial & Industrial	16 %	18 %	16 %	17 %
Other	2 %	3 %	2 %	2 %
Total	18 %	21 %	18 %	19 %
Commercial Investor Owned				
Retail	8 %	13 %	9 %	8 %
Commercial Office	7 %	7 %	7 %	7 %
Multi-Family Housing	3 %	2 %	3 %	3 %
Churches/ Schools/ Nursing Homes/ Other	3 %	— %	3 %	3 %
Industrial/ Warehouse	4 %	3 %	4 %	4 %
Total	25 %	25 %	26 %	25 %
Residential:				
Owner Occupied	6 %	15 %	7 %	7 %
Investor Owned	3 %	4 %	3 %	4 %
Total	9 %	19 %	10 %	11 %
Total Real Estate	59 %	87 %	63 %	67 %
Non Real Estate				
Commercial & Industrial	40 %	12 %	36 %	32 %
Consumer & Other	1 %	1 %	1 %	1 %
Total Non Real Estate	41 %	13 %	37 %	33 %
Total	100 %	100 %	100 %	100 %

The following descriptions focus on the Non-covered portion of the loan portfolio.

The Non-covered Construction and Land Development category represents $140.1 million, or 7%, of the total loan portfolio. Within that category, there was $10.0 million of loans secured by raw ground, $66.6 million of commercial construction, and $63.5 million of residential construction. Of the $140.1 million in loans in the Non-covered Construction and Land Development category, approximately $49 million was included on the Watch List.

The Non-covered Commercial construction component of the portfolio consisted of approximately 49 loan relationships with an average outstanding loan balance of $1.1 million. The largest loans were a $9.1 million line of credit secured by commercially zoned land in St. Louis, and a $4.5 million fixed line secured by commercially zoned land in Kansas City.

The Non-covered Residential construction component of the portfolio consists of single family housing development properties primarily in our St. Louis and Kansas City markets. There were approximately 87 loan relationships in this

category with an average outstanding loan balance of $435,000. The largest loan was a $2.9 million residential development in the Kansas City 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, 2011, the Company had $147.0 million of Non-covered non-owner occupied permanent loans secured by retail properties. There were approximately 62 loan relationships in this category with an average outstanding loan balance of $1.5 million. The largest loans outstanding at year end were an $7.8 million loan secured by various retail properties in Kansas City, a $6.8 million loan secured by a hotel in Arizona, and a $6.4 million loan secured by a retail shopping center in Kansas City.

At December 31, 2011, the Company $134.7 million of Non-covered non-owner occupied permanent loans secured by commercial office properties. There were approximately 71 loan relationships with an average outstanding loan balance of $1.5 million. The largest loans outstanding at year end were an $8.6 million loan secured by a single tenant office building in Kansas City, a $7.9 million loan secured by a medical office building in the St. Louis region and a $5.9 million loan secured by a multi-tenant office property in Kansas City.

Vacancy rates for commercial office space in the St. Louis and Kansas City markets totaled 17.3% and 16.3%, respectively at year end, as compared to the national commercial office vacancy rate of 17.3%.

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, 2011, no significant concentrations exceeding 10% of total loans existed in the Company's loan portfolio, except as described above.

Loans at December 31, 2011 mature or reprice as follows:

	Loans Maturing or Repricing			
(in thousands)	In One Year or Less	After One Through Five Years	After Five Years	Total
Fixed Rate Loans (1) (2)				
Commercial and industrial	$94,696	$156,331	$31,980	$283,007
Real estate:				
Commercial	187,761	396,882	46,390	631,033
Construction and land development	57,882	19,530	2,498	79,910
Residential	42,587	70,243	1,657	114,487
Consumer and other	3,362	2,136	—	5,498
Portfolio loans covered under FDIC loss share	68,076	80,767	11,587	160,430
Total	$454,364	$725,889	$94,112	$1,274,365
Variable Rate Loans (1)				
Commercial and industrial	$310,157	$142,079	$27,959	$480,195
Real estate:				
Commercial	66,414	98,938	15,185	180,537
Construction and land development	48,142	9,888	2,207	60,237
Residential	20,255	11,085	25,207	56,547
Consumer and other	5,397	226	—	5,623
Portfolio loans covered under FDIC loss share	53,508	39,965	46,707	140,180
Total	$503,873	$302,181	$117,265	$923,319
Loans (1) (2)				
Commercial and industrial	$404,853	$298,410	$59,939	$763,202
Real estate:				
Commercial	254,175	495,820	61,575	811,570
Construction and land development	106,024	29,418	4,705	140,147
Residential	62,842	81,328	26,864	171,034
Consumer and other	8,759	2,362	—	11,121
Portfolio loans covered under FDIC loss share	121,584	120,732	58,294	300,610
Total	$958,237	$1,028,070	$211,377	$2,197,684

(1) Loan balances include unearned loan (fees) costs, net.
(2) Not adjusted for impact of interest rate swap agreements.

Fixed rate loans comprise approximately 58% of the loan portfolio at December 31, 2011 and 61% at December 31, 2010. 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. While the loan relationship has a much longer life, the shorter maturities allow the Company to revisit the underwriting and pricing on each relationship periodically. Management monitors this mix as part of its interest rate risk management. See “Interest Rate Risk” section.

Of the $254.2 million of commercial real estate loans maturing in one year or less, $154.6 million, or 61%, represents loans secured by non-owner occupied commercial properties.

Allowance for Loan Losses
The loan portfolio is the primary asset subject to credit risk. Credit risk is controlled and monitored through the use of lending standards, a thorough review of potential borrowers, and ongoing review of loan payment performance. Active asset quality administration, including early problem loan identification and timely resolution of problems, further ensures appropriate management of credit risk. Credit risk management for each loan type is discussed briefly in the section entitled “Loans.”

The allowance for loan losses represents management's estimate of an amount adequate to provide for probable credit losses in the loan portfolio at the balance sheet date. Various quantitative and qualitative factors are analyzed and provisions are made to the allowance for loan losses. Such provisions are reflected in our consolidated statements of income. The evaluation of the adequacy of the allowance for loan losses is based on management's ongoing review and grading of the loan portfolio, consideration of past loss experience, trends in past due and nonperforming loans, risk characteristics of the various classifications of loans, existing economic conditions, the fair value of underlying collateral, and other factors that could affect probable credit losses. Assessing these numerous factors involves significant judgment and could be significantly impacted by changes in economic conditions. Management considers the allowance for loan losses a critical accounting policy. See “Critical Accounting Policies” for more information.

In determining the allowance and the related provision for loan losses, 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 subjective 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 collateral exposure, if they are collateral dependent for collection. Otherwise, discounted cash flows are estimated and used to assign loss. At December 31, 2011 the allocated allowance for loan losses on individually impaired loans was $10.7 million, or 26% of the total impaired loans. At December 31, 2010, the allocated allowance for loan losses on individually impaired loans was $9.1 million, or 20% of the total impaired loans.

The second element reflects the application of our loan rating system. This rating system is similar to those employed by state and federal banking regulators. 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 and heavily weighting the most recent 12 months. The higher the rating assigned to a loan, the greater the loss allocation percentage that is applied.

The qualitative adjustment is based on management's evaluation of conditions that are not directly reflected in the determination of the formula and specific allowances. 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 or portfolio segments. The conditions evaluated in connection with the qualitative adjustment include the following:
- general economic and business conditions affecting our markets;
- asset quality trends (including trends in nonperforming loans expected to result from existing conditions); and
- loan review findings.

Executive management reviews these conditions quarterly in discussion with our entire lending staff. 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. Where any of these conditions is not evidenced by a specifically identifiable problem credit or portfolio segment as of the evaluation date, management's evaluation of the probable loss related to such condition is reflected in the qualitative adjustment.

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, designed to assess the adequacy of the allowance for loan losses, 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. Because each of the criteria used is subject to change, the

allocation of the allowance for loan losses is made for analytical purposes and is not necessarily indicative of the trend of future loan losses in any particular loan category. The total allowance is available to absorb losses from any segment of the portfolio. Management continues to target and maintain the allowance for loan losses equal to the allocation methodology plus a qualitative adjustment, as determined by economic conditions and other qualitative and quantitative factors affecting the Company's borrowers, as described above.

For Covered loans, the Company re-measures contractual and expected cash flows on a quarterly basis. When the re-measurement process results in a decrease in expected cash flows, impairment is recorded as a provision for loan losses covered under FDIC loss share. As a result of impairment, 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. At December 31, 2011, the allowance for loan losses includes $1.6 million for Covered loans.

Management believes that the allowance for loan losses is adequate at December 31, 2011.

In 2012, the Company expects similar levels of net chargeoffs, (excluding Covered loans), given the continued softness in real estate values and activities in our markets.

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.

	At December 31,				
(in thousands)	2011	2010	2009	2008	2007
Allowance at beginning of year, for loans not covered under FDIC loss share	$42,759	$42,995	$33,808	$22,585	$17,475
(Disposed) acquired allowance for loan losses	—	—	—	(50)	2,010
Release of allowance related to loan participations sold	—	—	(1,383)	—	—
Loans charged off:					
Commercial and industrial	5,488	3,865	3,663	3,783	238
Real estate:					
Commercial	2,429	15,482	5,710	1,384	43
Construction and land development	10,627	12,148	15,086	8,044	705
Residential	1,613	4,391	5,931	2,367	1,418
Consumer and other	5	274	42	31	125
Total loans charged off	20,162	36,160	30,432	15,609	2,529
Recoveries of loans previously charged off:					
Commercial and industrial	583	157	62	64	347
Real estate:					
Commercial	729	1,001	66	—	15
Construction and land development	415	314	28	241	25
Residential	303	536	422	56	17
Consumer and other	62	181	12	11	105
Total recoveries of loans	2,092	2,189	590	372	509
Net loan chargeoffs for loans not covered under FDIC loss share	18,070	33,971	29,842	15,237	2,020
Provision for loan losses not covered under FDIC loss share	13,300	33,735	40,412	26,510	5,120
Allowance at end of year, for loans not covered under FDIC loss share	$37,989	$42,759	$42,995	$33,808	$22,585
Allowance at beginning of year, for loans covered under FDIC loss share	$—	$—	$—	$—	$—
Loans charged off covered under FDIC loss share	1,168	—	—	—	—
Recoveries of loans covered under FDIC loss share	—	—	—	—	—
Net loan chargeoffs for loans covered under FDIC loss share	1,168	—	—	—	—
Provision for loan losses covered under FDIC loss share	2,803	—	—	—	—
Allowance at end of year, for loans covered under FDIC loss share	$1,635	$—	$—	$—	$—
Total Allowance at end of year	$39,624	$42,759	$42,995	$33,808	$22,585

Excludes loans covered under FDIC loss share										
Average loans	$1,819,536		$1,782,023		$2,097,028		$2,001,073		$1,599,596	
Total portfolio loans	1,897,074		1,766,351		1,818,481		2,201,457		1,784,278	
Net chargeoffs to average loans	0.99	%	1.91	%	1.42	%	0.76	%	0.13	%
Allowance for loan losses to loans	2.00		2.42		2.36		1.54		1.27	
Includes loans covered under FDIC loss share										
Average loans	$2,051,899		$1,853,175		$2,098,272		$2,001,073		$1,599,596	
Total portfolio loans	2,197,684		1,887,921		1,832,125		2,201,457		1,784,278	
Net chargeoffs to average loans	0.94	%	1.83	%	1.42	%	0.76	%	0.13	%
Allowance for loan losses to loans	1.80		2.26		2.35		1.54		1.27	

The following table is a summary of the allocation of the allowance for loan losses for the five years ended December 31, 2011:

	December 31, 2011			2010			2009			2008			2007		
(in thousands)	Allowance	Percent by Category to Total Loans		Allowance	Percent by Category to Total Loans		Allowance	Percent by Category to Total Loans		Allowance	Percent by Category to Total Loans		Allowance	Percent by Category to Total Loans	
Commercial and industrial	$11,945	34.7	%	$12,727	31.5	%	$9,715	30.2	%	$6,431	30.7	%	$4,582	30.8	%
Real estate:															
Commercial	13,048	36.9	%	10,689	41.1	%	19,600	44.7	%	11,085	40.3	%	7,229	40.4	%
Construction and land development	5,847	6.4	%	8,407	10.1	%	4,289	12.1	%	7,886	17.2	%	5,418	16.9	%
Residential	3,931	7.8	%	5,485	10.0	%	3,859	11.4	%	2,762	10.7	%	2,632	9.8	%
Consumer and other	14	0.5	%	93	0.9	%	45	0.9	%	188	1.1	%	438	2.1	%
Portfolio loans covered under FDIC loss share	1,635	13.7	%	—	6.4	%	—	0.7	%	—	—	%	—	—	%
Qualitative adjustment	3,204			5,358			5,487			5,456			2,286		
Total allowance	$39,624	100.0	%	$42,759	100.0	%	$42,995	100.0	%	$33,808	100.0	%	$22,585	100.0	%

Nonperforming assets

Nonperforming loans are defined as loans on non-accrual status, 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 purchased credit-impaired loans are accounted for on a pool basis, and the pools are considered to be performing. See Item 8, Note 6 - Portfolio Loans for more information on these loans.

Loans are 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 collectibility 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 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.

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, 2011, 2010, and 2009, the Company had 41, 43, and 39 impaired loan relationships, respectively.

The following table presents the categories of nonperforming assets and certain ratios as of the dates indicated:

	December 31,				
(in thousands)	2011	2010	2009	2008	2007
Non-accrual loans	$30,885	$38,477	$37,441	$35,487	$12,720
Loans past due 90 days or more and still accruing interest	755	—	—	—	—
Restructured loans	9,982	7,880	1,099	—	—
Total nonperforming loans	41,622	46,357	38,540	35,487	12,720
Foreclosed property (1)	17,217	25,373	22,918	13,868	2,963
Other bank owned assets	—	850	—	—	—
Total nonperforming assets (1)	$58,839	$72,580	$61,458	$49,355	$15,683
Excludes assets covered under FDIC loss share					
Total assets	$3,377,779	$2,800,199	$2,365,655	$2,493,767	$2,141,329
Total portfolio loans	1,897,074	1,766,351	1,818,481	2,201,457	1,784,278
Total loans plus foreclosed property	1,914,291	1,792,574	1,841,399	2,215,325	1,787,241
Nonperforming loans to total loans	2.19 %	2.62 %	2.12 %	1.61 %	0.71 %
Nonperforming assets to total loans plus foreclosed property	3.07	4.05	3.34	2.23	0.88
Nonperforming assets to total assets (1)	1.74	2.59	2.60	1.98	0.73
Includes assets covered under FDIC loss share					
Total assets	$3,377,779	$2,800,199	$2,365,655	$2,493,767	$2,141,329
Total portfolio loans	2,197,684	1,887,921	1,832,125	2,201,457	1,784,278
Total loans plus foreclosed property	2,251,372	1,924,979	1,857,209	2,215,325	1,787,241
Nonperforming loans to total loans	1.89 %	2.46 %	2.10 %	1.61 %	0.71 %
Nonperforming assets to total loans plus foreclosed property	4.23	4.33	3.43	2.23	0.88
Nonperforming assets to total assets	2.82	2.98	2.69	1.98	0.73
Allowance for loan losses to nonperforming loans	95.00 %	92.00 %	112.00 %	95.00 %	178.00 %

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

Nonperforming loans

Nonperforming loans at December 31, 2011 and 2010 based on Call Report codes were as follows:

(in thousands)	2011	2010
Construction, Real Estate/Land Acquisition and Development	$14,767	$9,934
Commercial Real Estate - Investor Owned	11,127	10,935
Commercial Real Estate - Owner Occupied	4,572	2,024
Residential Real Estate	5,522	12,188
Commercial & Industrial	5,634	11,276
Consumer & Other	—	—
Total	$41,622	$46,357

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The following table summarizes the changes in nonperforming loans by quarter for 2011 and 2010.

	2011				
(in thousands)	4th Qtr	3rd Qtr	2nd Qtr	1st Qtr	Total year
Nonperforming loans beginning of period	$48,038	$43,118	$43,487	$46,357	$46,357
Additions to nonaccrual loans	7,276	14,618	6,204	18,187	46,285
Additions to restructured loans	3,803	2,314	2,508	297	8,922
Chargeoffs	(5,558)	(4,959)	(5,679)	(3,966)	(20,162)
Other principal reductions	(7,545)	(3,372)	(3,992)	(6,445)	(21,354)
Moved to Other real estate	(1,203)	(2,932)	(159)	(7,014)	(11,308)
Moved to performing	(3,944)	—	—	(3,929)	(7,873)
Loans past due 90 days or more and still accruing interest	755	(749)	749	—	755
Nonperforming loans end of period	$41,622	$48,038	$43,118	$43,487	$41,622

	2010				
(in thousands)	4th Qtr	3rd Qtr	2nd Qtr	1st Qtr	Total Year
Nonperforming loans beginning of period	$51,955	$46,550	$55,785	$38,540	$38,540
Additions to nonaccrual loans	15,877	19,373	15,440	39,663	90,353
Additions to restructured loans	3,430	2,286	454	611	6,781
Chargeoffs	(7,860)	(7,023)	(8,314)	(12,963)	(36,160)
Other principal reductions	(7,288)	(1,881)	(4,580)	(2,739)	(16,488)
Moved to Other real estate	(8,743)	(7,122)	(11,350)	(5,564)	(32,779)
Moved to Other bank owned assets	—	—	—	(955)	(955)
Moved to performing	(1,014)	(228)	—	(1,693)	(2,935)
Loans past due 90 days or more and still accruing interest	—	—	(885)	885	—
Nonperforming loans end of period	$46,357	$51,955	$46,550	$55,785	$46,357

At December 31, 2011, the nonperforming loans represent 41 relationships. The largest of these is 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 represent 43 relationships. The largest of these is 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.

At December 31, 2009, the nonperforming loans represent 39 relationships. The largest of these is a $4.0 million commercial real estate loan. Five relationships comprise 41% of the nonperforming loans. Approximately 52% of the nonperforming loans were in the Kansas City market, 47% were in the St. Louis market and less than 1% were in the Phoenix market.

At December 31, 2008, of the total nonperforming loans, $23.6 million, or 67%, related to five relationships: $10.6 million secured by a partially completed retail center; $3.5 million secured by commercial ground; $4.7 million secured by a medical office building; $2.8 million secured by a single family residence; and $1.9 million secured by a residential development. The remaining nonperforming loans consisted of 20 relationships. Eighty-four percent of the total nonperforming loans are located in the Kansas City market.

At December 31, 2007, of the total nonperforming loans, $7.3 million, or 57%, were related to eight residential homebuilders in St. Louis and Kansas City. The two largest related to a residential builder in Kansas City totaling $2.2 million and a single-family rehab builder in Kansas City totaling $1.6 million. The remaining nonperforming loans consisted of 11 relationships, nearly all of which were related to the soft residential housing markets in St. Louis and Kansas City.

In 2012, the Company expects similar or lower levels of new Non-covered, nonperforming loans compared to 2011, thereby continuing a trend from 2010.

Other real estate

Other real estate at December 31, 2011 was $53.7 million, an increase of $17.5 million over 2010. Approximately $36.5 million, or 68% of total Other real estate, is covered by an FDIC shared-loss agreement. At December 31, 2011, Other real estate represented 100 properties. The largest single component of Other real estate is commercial ground with a book value of $3.6 million that is covered under FDIC loss share. Thirteen properties comprise 50% of the Other real estate. At December 31, 2011, Other real estate was comprised of 14% residential lots, 6% completed homes, and 80% commercial real estate. Of the total Other real estate, approximately 44%, or 42 properties, are located in the Kansas City region, 26%, or 17 properties, are located in the St. Louis region and 30%, or 39 properties, are located in the Arizona region. All Arizona Other real estate and 31 properties or $20.2 million, of the Kansas City Other real estate are covered under FDIC loss share.

The following table summarizes the changes in Other real estate by quarter for 2011 and 2010.

	2011				
(in thousands)	4th Qtr	3rd Qtr	2nd Qtr	1st Qtr	Total Year
Other real estate beginning of period	$72,563	$42,790	$51,305	$36,208	$36,208
Additions and expenses capitalized to prepare property for sale	1,203	2,932	159	7,014	11,308
Additions from FDIC assisted transactions	1,250	41,793	3,298	12,826	59,167
Writedowns in fair value	(1,998)	(2,714)	(2,944)	(703)	(8,359)
Sales	(19,330)	(12,238)	(9,028)	(4,040)	(44,636)
Other real estate end of period	$53,688	$72,563	$42,790	$51,305	$53,688

	2010				
(in thousands)	4th Qtr	3rd Qtr	2nd Qtr	1st Qtr	Total Year
Other real estate beginning of period	$34,685	$25,884	$20,947	$25,084	$25,084
Additions and expenses capitalized to prepare property for sale	8,743	7,122	11,350	5,564	32,779
Additions from FDIC assisted transactions	4,871	5,469	—	113	10,453
Writedowns in fair value	(2,406)	(1,750)	(1,364)	(574)	(6,094)
Sales	(9,685)	(2,040)	(5,049)	(9,240)	(26,014)
Other real estate end of period	$36,208	$34,685	$25,884	$20,947	$36,208

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 2011, the Company realized a net gain of $862,000 on the sale of other real estate and recorded these gains as part of Noninterest income. Management believes it is prudent to sell these properties, rather than wait for an improved real estate market.

Potential problem loans

Potential problem loans, which are not included in nonperforming loans, amounted to approximately $60.6 million, or 3.19% of total Non-covered loans outstanding at December 31, 2011, compared to $85.4 million, or 4.83% of total Non-covered loans outstanding at December 31, 2010. 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. Given this level of potential problem loans and continued softness in the local real estate markets, combined with the Company's demonstrated ability to work through this adverse credit cycle to-date, we believe the dollar levels of the nonperforming assets, excluding Covered

loans, will be flat in 2012 compared to 2011.

Investments

At December 31, 2011, our portfolio of Securities available for sale was $593.2 million, or 18%, of total assets. This portfolio is primarily comprised of residential mortgage-based securities and obligations of U.S. government sponsored enterprises. The size of the investment portfolio is generally 5 to 20% of total assets and will vary within that range based on liquidity. Typically, management classifies securities as available for sale to maximize management flexibility, although securities may be purchased with the intention of holding to maturity. Securities available-for-sale are carried at fair value, with related unrealized gains or losses, net of deferred income taxes, recorded as an adjustment to equity capital.

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, 2011, of the $ 9.6 million in FHLB capital stock, $3.4 million is required for FHLB membership and $4.6 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:

	December 31,								
	2011			2010			2009		
(in thousands)	Amount	%		Amount	%		Amount	%	
Obligations of U.S. Government agencies	$—	—	%	$453	0.1	%	27,189	9.2	%
Obligations of U.S. Government sponsored enterprises	126,917	20.9	%	32,119	8.6	%	75,814	25.6	%
Obligations of states and political subdivisions	39,837	6.6	%	17,676	4.7	%	3,408	1.2	%
Residential mortgage-backed securities	426,428	70.1	%	311,298	83.4	%	176,050	59.5	%
FHLB capital stock	9,588	1.6	%	7,633	2.0	%	8,476	2.9	%
Other investments	4,938	0.8	%	4,645	1.2	%	4,713	1.6	%
Total	$607,708	100.0	%	$373,824	100.0	%	$295,650	100.0	%

In 2011, the portfolio grew with additions to the mortgage backed securities, including collateralized mortgage obligations, government sponsored agency debentures, and federally tax free municipal securities. All residential mortgage-backed securities were issued by government sponsored enterprises.

The Company had no securities classified as trading at December 31, 2011, 2010, or 2009.

The following table summarizes expected maturity and tax equivalent yield information on the investment portfolio at December 31, 2011:

	Within 1 year		1 to 5 years		5 to 10 years		Over 10 years		No Stated Maturity		Total	
(in thousands)	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield
Obligations of U.S. Government sponsored enterprises	2,007	0.46%	69,197	1.38%	55,713	1.58%	—	— %	—	— %	126,917	1.45%
Obligations of states and political	1,026	4.59%	10,644	4.07%	23,979	4.59%	4,188	1.84%	—	— %	39,837	4.16%

subdivisions												
Residential mortgage-backed securities	20,547	0.59%	334,745	2.04%	37,777	2.08%	33,359	1.35%	—	— %	426,428	1.92%
FHLB capital stock	—	— %	—	— %	—	— %	—	— %	9,588	2.30%	9,588	2.30%
Other investments	—	— %	—	— %	—	— %	—	— %	4,938	2.98%	4,938	2.98%
Total	$23,580	0.75%	$414,586	1.98%	$117,469	2.35%	$37,547	1.40%	$14,526	2.53%	$607,708	1.98%

Yields on tax-exempt securities are computed on a taxable equivalent basis using a tax rate of 36%. Expected maturities

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will differ from contractual maturities, as borrowers may have the right to call or repay obligations with or without prepayment penalties.

Deposits

The following table shows, for the periods indicated, the average annual amount and the average rate paid by type of deposit:

	For the year ended December 31,					
	2011		2010		2009	
(in thousands)	Average balance	Weighted average rate	Average balance	Weighted average rate	Average balance	Weighted average rate
Interest-bearing transaction accounts	$212,257	0.38 %	$190,275	0.45 %	$122,563	0.54 %
Money market accounts	997,415	0.80 %	701,360	0.89 %	636,350	0.96 %
Savings accounts	27,106	0.41 %	10,022	0.35 %	9,147	0.38 %
Certificates of deposit	847,057	1.50 %	784,369	2.01 %	786,631	2.98 %
	2,083,835	1.04 %	1,686,026	1.36 %	1,554,691	1.94 %
Noninterest-bearing demand deposits	494,609	— %	305,887	— %	250,435	— %
	$2,578,444	0.84 %	$1,991,913	1.15 %	$1,805,126	1.67 %

The Bank achieved several deposit related goals in 2011 including strong growth in core relationships, an improvement in the overall mix and a reduction in broker related funds. The year over year increase in deposits was largely comprised of noninterest-bearing demand deposits and money market and savings accounts with higher cost certificates of deposit declining during the year. Strong direct selling efforts, primarily by the commercial banking group coupled with the FNBO acquisition, drove the deposit growth. As deposit rates continued to decline, the Bank 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. The Company also undertook an initiative to significantly reduce its reliance on broker funds.

The Company 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 Company successfully migrated to a new on-line banking platform in 2011. Other recent Treasury enhancements include new mobile technology to improve on-line security and mobile applications for remote deposit and merchant credit card processing.

The FNB acquisition added $423.1 million in deposits in the third quarter of 2011. These deposits included $66.9 million in noninterest-bearing demand deposits, $123.6 million in money market and other interest-bearing transaction accounts, and $232.6 million in certificates of deposit.

Brokered certificates of deposits were $126.6 million at December 31, 2011, a decrease of $30.1 million, or 19% compared to December 31, 2010. For the year ended December 31, 2011, brokered certificates of deposits represented 5% of total deposits compared to 7% for the year ended December 31, 2010. Noninterest-bearing demand deposits represented 21% of total deposits at December 31, 2011 compared to 16% at December 31, 2010.

Maturities of certificates of deposit of $100,000 or more were as follows as of December 31, 2011:

(in thousands)	Total
Three months or less	$ 95,405
Over three through six months	62,362
Over six through twelve months	120,559
Over twelve months	272,209
Total	$ 550,535

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.

Our Asset-Liability Management Committee oversees our liquidity position, the parameters of which are approved by the 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, 2011, net cash provided by operating activities was $22.1 million less than for 2010. Net cash used in investing activities was $0.4 million for 2011 versus $287.9 million in 2010. The higher net cash used in investing activities in 2010 was primarily due to the asset acquisition of Home National. Net cash used in financing activities was $133.1 million in 2011 versus net cash provided by financing activities of