

ENTERPRISE FINANCIAL SERVICES CORP
Form 10-Q
July 27, 2018

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

FORM 10-Q

Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended June 30, 2018.

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

Commission file number 001-15373

ENTERPRISE FINANCIAL SERVICES CORP

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

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

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

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

Large accelerated filer Accelerated filer
Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company
Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to section 13(a) of the Exchange Act.

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

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As of July 25, 2018, the Registrant had 23,150,738 shares of outstanding common stock, \$0.01 par value.

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

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PART 1 - ITEM 1 - FINANCIAL STATEMENTS
ENTERPRISE FINANCIAL SERVICES CORP AND SUBSIDIARIES
Condensed Consolidated Balance Sheets (Unaudited)

(in thousands, except share and per share data)	June 30, 2018	December 31, 2017
Assets		
Cash and due from banks	\$91,851	\$ 91,084
Federal funds sold	1,445	1,223
Interest-bearing deposits (including \$1,295 and \$1,365 pledged as collateral, respectively)	83,961	61,016
Total cash and cash equivalents	177,257	153,323
Interest-bearing deposits greater than 90 days	2,180	2,645
Securities available for sale	651,140	641,382
Securities held to maturity	68,931	73,749
Loans held for sale	1,388	3,155
Loans	4,275,761	4,097,050
Less: Allowance for loan losses	44,370	42,577
Total loans, net	4,231,391	4,054,473
Other real estate	454	498
Other investments, at cost	36,132	26,661
Fixed assets, net	32,814	32,618
Accrued interest receivable	17,808	14,069
State tax credits held for sale (including \$299 and \$400 carried at fair value, respectively)	46,481	43,468
Goodwill	117,345	117,345
Intangible assets, net	9,768	11,056
Other assets	116,835	114,783
Total assets	\$5,509,924	\$ 5,289,225
Liabilities and Shareholders' Equity		
Demand deposits	\$1,050,969	\$ 1,123,907
Interest-bearing transaction accounts	754,819	915,653
Money market accounts	1,558,923	1,342,931
Savings	209,870	195,150
Certificates of deposit:		
Brokered	224,192	115,306
Other	449,139	463,467
Total deposits	4,247,912	4,156,414
Subordinated debentures and notes (net of debt issuance cost of \$1,071 and \$1,136, respectively)	118,131	118,105
Federal Home Loan Bank advances	361,534	172,743
Other borrowings	167,216	253,674
Accrued interest payable	1,884	1,730
Other liabilities	39,163	37,986
Total liabilities	4,935,840	4,740,652
Shareholders' equity:		
Preferred stock, \$0.01 par value; 5,000,000 shares authorized; 0 shares issued and outstanding	—	—
Common stock, \$0.01 par value; 30,000,000 shares authorized; 23,900,669 and 23,781,112 shares issued, respectively	239	238

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Treasury stock, at cost; 756,588 and 691,673 shares, respectively	(26,326) (23,268)
Additional paid in capital	348,471	350,061	
Retained earnings	264,280	225,360	
Accumulated other comprehensive loss	(12,580	) (3,818)
Total shareholders' equity	574,084	548,573	
Total liabilities and shareholders' equity	\$5,509,924	\$5,289,225	

See accompanying notes to consolidated financial statements.

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ENTERPRISE FINANCIAL SERVICES CORP AND SUBSIDIARIES

Condensed Consolidated Statements of Operations (Unaudited)

	Three months ended June 30,		Six months ended June 30,	
(in thousands, except per share data)	2018	2017	2018	2017
Interest income:				
Interest and fees on loans	\$52,948	\$47,307	\$103,398	\$87,233
Interest on debt securities:				
Taxable	4,228	3,585	8,215	6,815
Nontaxable	271	304	553	690
Interest on interest-bearing deposits	231	234	471	364
Dividends on equity securities	201	112	406	180
Total interest income	57,879	51,542	113,043	95,282
Interest expense:				
Interest-bearing transaction accounts	817	523	1,623	1,198
Money market accounts	4,445	1,938	7,798	3,431
Savings accounts	147	125	272	207
Certificates of deposit	2,338	1,373	4,237	2,588
Subordinated debentures and notes	1,454	1,288	2,822	2,452
Federal Home Loan Bank advances	1,448	522	2,706	852
Notes payable and other borrowings	182	140	366	279
Total interest expense	10,831	5,909	19,824	11,007
Net interest income	47,048	45,633	93,219	84,275
Provision for portfolio loan losses	2,385	3,623	4,256	5,156
Provision reversal for purchased credit impaired loan losses	(1,995)	(207)	(1,995)	(355)
Net interest income after provision for loan losses	46,658	42,217	90,958	79,474
Noninterest income:				
Service charges on deposit accounts	3,007	2,816	5,858	5,326
Wealth management revenue	2,141	2,054	4,255	3,887
Card services revenue	1,650	1,392	3,166	2,429
Gain on sale of other real estate	—	17	—	17
Gain on state tax credits, net	64	9	316	255
Gain on sale of investment securities	—	—	9	—
Miscellaneous income	2,831	1,646	5,631	2,996
Total noninterest income	9,693	7,934	19,235	14,910
Noninterest expense:				
Employee compensation and benefits	16,582	15,798	33,073	31,006
Occupancy	2,342	2,265	4,748	4,194
Data processing	1,533	1,806	3,000	3,439
Professional fees	747	1,079	1,596	1,916
FDIC and other insurance	920	650	1,837	1,474
Loan legal and other real estate expense	(23)	613	276	958
Merger related expenses	—	4,480	—	6,147
Other	7,118	5,960	13,832	10,253
Total noninterest expense	29,219	32,651	58,362	59,387
Income before income tax expense	27,132	17,500	51,831	34,997
Income tax expense	4,881	5,545	8,659	10,651
Net income	\$22,251	\$11,955	\$43,172	\$24,346

Earnings per common share

Basic	\$0.96	\$0.51	\$1.87	\$1.07
Diluted	0.95	0.50	1.85	1.06

See accompanying notes to consolidated financial statements.

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

(in thousands)	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
Net income	\$22,251	\$11,955	\$43,172	\$24,346
Other comprehensive income (loss), net of tax:				
Unrealized gains (losses) on investment securities arising during the period, net of income tax expense (benefit) for three months of \$(333) and \$921, and for six months of \$(2,598) and \$1,268, respectively	(1,017)	1,502	(7,921)	2,070
Less: Reclassification adjustment for realized gains on sale of securities available for sale included in net income, net of income tax expense for the six months of \$2 and \$0, respectively	—	—	(7)	—
Total other comprehensive income (loss)	(1,017)	1,502	(7,928)	2,070
Total comprehensive income	\$21,234	\$13,457	\$35,244	\$26,416

See accompanying notes to consolidated financial statements.

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

(in thousands, except per share data)	Common Stock	Treasury Stock	Additional paid in capital	Retained earnings	Accumulated other comprehensive income (loss)	Total shareholders' equity
Balance December 31, 2017	\$ 238	\$(23,268)	\$350,061	\$225,360	\$ (3,818)	\$ 548,573
Net income	—	—	—	43,172	—	43,172
Other comprehensive income	—	—	—	—	(7,928)	(7,928)
Total comprehensive income	—	—	—	43,172	(7,928)	35,244
Cash dividends paid on common shares, \$0.22 per share	—	—	—	(5,086)	—	(5,086)
Repurchase of common shares	—	(3,058)	—	—	—	(3,058)
Issuance under equity compensation plans, 119,557 shares, net	1	—	(3,221)	—	—	(3,220)
Share-based compensation	—	—	1,631	—	—	1,631
Reclassification adjustments for change in accounting policies	—	—	—	834	(834)	—
Balance June 30, 2018	\$ 239	\$(26,326)	\$348,471	\$264,280	\$ (12,580)	\$ 574,084

(in thousands, except per share data)	Common Stock	Treasury Stock	Additional paid in capital	Retained earnings	Accumulated other comprehensive income (loss)	Total shareholders' equity
Balance December 31, 2016	\$ 203	\$(6,632)	\$213,078	\$182,190	\$ (1,741)	\$ 387,098
Net income	—	—	—	24,346	—	24,346
Other comprehensive income	—	—	—	—	2,070	2,070
Total comprehensive income	—	—	—	24,346	2,070	26,416
Cash dividends paid on common shares, \$0.22 per share	—	—	—	(5,163)	—	(5,163)
Issuance under equity compensation plans, 140,531 shares, net	1	—	(2,904)	—	—	(2,903)
Share-based compensation	—	—	1,576	—	—	1,576
Shares issued in connection with acquisition of Jefferson County Bancshares, Inc., 3,299,865 shares, net	33	—	141,696	—	—	141,729
Reclassification for the adoption of share-based payment guidance	—	—	(5,229)	5,229	—	—
Balance June 30, 2017	\$ 237	\$(6,632)	\$348,217	\$206,602	\$ 329	\$ 548,753

See accompanying notes to consolidated financial statements.

ENTERPRISE FINANCIAL SERVICES CORP AND SUBSIDIARIES

Condensed Consolidated Statements of Cash Flows (Unaudited)

Six months ended June 30,

(in thousands, except share data)	2018		2017	
Cash flows from operating activities:				
Net income	\$ 43,172		\$ 24,346	
Adjustments to reconcile net income to net cash provided by operating activities				
Depreciation	1,707		1,583	
Provision for loan losses	2,261		4,800	
Deferred income taxes	3,156		4,166	
Net amortization of debt securities	956		1,708	
Amortization of intangible assets	1,288		1,207	
Gain on sale of investment securities	(9)	—	
Mortgage loans originated for sale	(25,064	)	(80,697)
Proceeds from mortgage loans sold	27,070		86,127	
Gain on sale of other real estate	—		(17)
Gain on state tax credits, net	(316	)	(255)
Share-based compensation	1,631		1,576	
Net accretion of loan discount	(793	)	(3,001)
Changes in:				
Accrued interest receivable	(3,739	)	1,988	
Accrued interest payable	154		(299)
Other assets	(809	)	483	
Other liabilities	1,203		(51,359)
Net cash provided by (used in) operating activities	51,868		(7,644)
Cash flows from investing activities:				
Proceeds from JCB acquisition, net of cash purchase price	—		4,456	
Net increase in loans	(178,386	)	(65,592)
Proceeds from the sale of securities, available for sale	1,451		143,554	
Proceeds from the paydown or maturity of securities, available for sale	40,743		107,603	
	3,239		2,722	

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Proceeds from the paydown or maturity of securities, held to maturity			
Proceeds from the redemption of other investments	22,728		23,390
Proceeds from the sale of state tax credits held for sale	1,940		4,286
Proceeds from the sale of other real estate	—		2,513
Payments for the purchase/origination of:			
Available for sale debt securities	(62,055	)	(263,453
Other investments	(33,719	)	(30,977
State tax credits held for sale	(4,636)	—
Fixed assets, net	(1,915	)	(1,140
Net cash used in investing activities	(210,610	)	(72,638
Cash flows from financing activities:			
Net decrease in noninterest-bearing deposit accounts	(72,938	)	(8,162
Net increase (decrease) in interest-bearing deposit accounts	164,436		(69,117
Proceeds from Federal Home Loan Bank advances	907,500		1,141,181
Repayments of Federal Home Loan Bank advances	(718,500	)	(940,681
Net decrease in other borrowings	(86,458	)	(115,911
Cash dividends paid on common stock	(5,086	)	(5,163
Payments for the repurchase of common stock	(3,058)	—
Payments for the issuance of equity instruments, net	(3,220	)	(2,903
Net cash provided by (used in) financing activities	182,676		(756
Net increase (decrease) in cash and cash equivalents	23,934		(81,038
Cash and cash equivalents, beginning of period	153,323		198,802
Cash and cash equivalents, end of period	\$ 177,257		\$ 117,764
Supplemental disclosures of cash flow information:			
Cash paid during the period for:			

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Interest	\$	19,670	\$	10,653
Income taxes		780		6,386
Noncash transactions:				
Transfer to other real estate owned in settlement of loans	\$	—	\$	289
Common shares issued in connection with JCB acquisition		—		141,729

See accompanying notes to consolidated financial statements.

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ENTERPRISE FINANCIAL SERVICES CORP AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (Unaudited)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Business and Consolidation

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

Operating results for the three and six months ended June 30, 2018 are not necessarily indicative of the results that may be expected for any other interim period or for the year ending December 31, 2018. For further information, refer to the consolidated financial statements and footnotes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2017.

Basis of Financial Statement Presentation

The condensed consolidated financial statements of the Company and its subsidiaries have been prepared in accordance with the accounting principles generally accepted in the United States of America ("U.S. GAAP") for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. The condensed consolidated financial statements include the accounts of the Company and its subsidiaries, all of which are wholly owned. All intercompany accounts and transactions have been eliminated.

During the first quarter of 2018, the Company adopted Accounting Standards Update ("ASU") 2016-01, "Financial Instruments-Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities." ASU 2016-01 requires equity investments to be measured at fair value through earnings, and eliminates the available-for-sale classification for equity securities with readily determinable fair values. The guidance also provides an alternative to measure equity securities without readily determinable fair values at cost less impairment (if any), plus or minus observable price changes from an identical or similar investment of the same issuer (the "measurement alternative"). The Company elected the measurement alternative for its qualifying equity securities. The adoption of this update resulted in an insignificant increase to retained earnings which was reclassified from accumulated other comprehensive income.

In addition, the Company early adopted ASU 2017-12, "Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities" during the first quarter of 2018. The objective of ASU 2017-12 is to improve the financial reporting of hedging relationships by better aligning an entity's risk management activity with the economic objectives in undertaking those activities. The adoption of this update had an insignificant impact on the Company's consolidated financial statements.

The Company also early adopted ASU 2018-02, "Income Statement - Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income" during the first quarter of 2018. The ASU allows a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the Tax Cuts and Jobs Act. The adoption of this update resulted in an increase to retained earnings of \$0.8 million which was reclassified from accumulated other comprehensive income.

In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included.

Revenue

The Company adopted the accounting standard regarding revenue recognition in the first quarter of 2018 using the modified retrospective approach. The Company's revenues are primarily composed of interest income on financial instruments, including investment securities, which are excluded from the scope of the new guidance. Certain other noninterest income from loans, investment securities and derivative financial instruments is also excluded from this guidance. Service charges on deposit accounts, wealth management revenue, card services revenue, and gain on sale of other real estate are within the scope of the guidance; however, there were no accounting policy changes as the Company's policies were consistent with the new guidance. Other noninterest income sources of revenue are considered immaterial. Implementation of this guidance did not change current business practices or have any changes to the Company's consolidated financial statements.

Descriptions of our revenue-generating activities within the scope of this guidance, which are presented in our income statement as components of noninterest income are as follows:

- Service charges on deposit accounts - represents fees generated from a variety of deposit products and services provided to customers under a day-to-day contract. These fees are recognized on a daily or monthly basis.
- Wealth management revenue - represents monthly fees earned from directing, holding, and managing customers' assets. Revenue is recognized over regular intervals, either monthly or quarterly.
- Card services revenue - represents revenue earned from merchant, debit and credit cards as incurred and includes a contra revenue account for rebates.
- Gain on sale of other real estate - represents income recognized at delivery of control of a property at the time of a real estate closing.

Income Taxes

The SEC staff issued SAB 118, which provides guidance on accounting for the tax effects of the Tax Cuts and Jobs Act of 2017 ("Tax Act"). SAB 118 provides a measurement period that should not extend beyond one year from the Tax Act enactment date for companies to complete the accounting under ASC 740. In accordance with SAB 118, a company must reflect the income tax effects of those aspects of the Act for which the accounting under ASC 740 is complete. To the extent that a company's accounting for certain income tax effects of the Tax Act is incomplete but it is able to determine a reasonable estimate, it must record a provisional estimate in the financial statements. If a company cannot determine a provisional estimate to be included in the financial statements, it should continue to apply ASC 740 on the basis of the provisions of the tax laws that were in effect immediately before the enactment of the Tax Act. The Company has recorded amounts based on the information known and reasonable estimates used as of June 30, 2018, but are subject to change based on a number of factors. The Company will complete its analysis of certain tax positions at the time it files its tax returns for the year ended December 31, 2017 and will be able to conclude if any further adjustments to the provisional estimate of the impact recorded is required.

NOTE 2 - EARNINGS PER SHARE

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

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

(in thousands, except per share data)	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
Net income as reported	\$22,251	\$11,955	\$43,172	\$24,346
Weighted average common shares outstanding	23,124	23,475	23,119	22,706
Additional dilutive common stock equivalents	194	257	213	314
Weighted average diluted common shares outstanding	23,318	23,732	23,332	23,020
Basic earnings per common share:	\$0.96	\$0.51	\$1.87	\$1.07
Diluted earnings per common share:	\$0.95	\$0.50	\$1.85	\$1.06

For the three and six months ended June 30, 2018 and 2017, there were no common stock equivalents excluded from the earnings per share calculations because their effect would have been anti-dilutive.

NOTE 3 - INVESTMENTS

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

(in thousands)	June 30, 2018			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for sale securities:				
Obligations of U.S. Government-sponsored enterprises	\$99,902	\$ —	\$(1,858)	\$98,044
Obligations of states and political subdivisions	31,750	348	(154)	31,944
Agency mortgage-backed securities	525,810	369	(14,890)	511,289
U.S. Treasury bills	9,957	—	(94)	9,863
Total securities available for sale	\$667,419	\$ 717	\$(16,996)	\$651,140
Held to maturity securities:				
Obligations of states and political subdivisions	\$12,537	\$ 7	\$(240)	\$12,304
Agency mortgage-backed securities	56,394	—	(1,789)	54,605
Total securities held to maturity	\$68,931	\$ 7	\$(2,029)	\$66,909
(in thousands)	December 31, 2017			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for sale securities:				
Obligations of U.S. Government-sponsored enterprises	\$99,878	\$ 6	\$(660)	\$99,224
Obligations of states and political subdivisions	34,181	674	(213)	34,642
Agency mortgage-backed securities	513,082	727	(6,293)	507,516
Total securities available for sale	\$647,141	\$ 1,407	\$(7,166)	\$641,382
Held to maturity securities:				
Obligations of states and political subdivisions	\$14,031	\$ 69	\$(46)	\$14,054
Agency mortgage-backed securities	59,718	16	(330)	59,404
Total securities held to maturity	\$73,749	\$ 85	\$(376)	\$73,458

At June 30, 2018, and December 31, 2017, there were no holdings of securities of any one issuer in an amount greater than 10% of shareholders' equity, other than U.S. Government agencies and sponsored enterprises. The agency mortgage-backed securities are all issued by U.S. Government agencies and sponsored enterprises. Securities having a fair value of \$376.0 million and \$500.0 million at June 30, 2018, and December 31, 2017, respectively, were pledged as collateral to secure deposits of public institutions and for other purposes as required by law or contract provisions.

The amortized cost and estimated fair value of debt securities at June 30, 2018, by contractual maturity, are shown below. Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties. The weighted average life of the mortgage-backed securities is approximately 5 years.

(in thousands)	Available for sale		Held to maturity	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Due in one year or less	\$2,675	\$2,690	\$—	\$—
Due after one year through five years	121,187	119,369	867	866
Due after five years through ten years	12,703	12,804	10,804	10,603
Due after ten years	5,044	4,988	866	835
Agency mortgage-backed securities	525,810	511,289	56,394	54,605
	\$667,419	\$651,140	\$68,931	\$66,909

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

(in thousands)	June 30, 2018					
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Total Fair Value	Unrealized Losses
Obligations of U.S. Government-sponsored enterprises	\$98,044	\$ 1,858	\$—	\$ —	\$98,044	\$ 1,858
Obligations of states and political subdivisions	24,883	369	364	25	25,247	394
Agency mortgage-backed securities	392,242	10,617	134,128	6,062	526,370	16,679
U.S. Treasury bills	9,863	94	—	—	9,863	94
	\$525,032	\$ 12,938	\$134,492	\$ 6,087	\$659,524	\$ 19,025

(in thousands)	December 31, 2017					
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Total Fair Value	Unrealized Losses
Obligations of U.S. Government-sponsored enterprises	\$89,309	\$ 660	\$—	\$ —	\$89,309	\$ 660
Obligations of states and political subdivisions	13,951	259	—	—	13,951	259
Agency mortgage-backed securities	469,655	6,034	12,229	589	481,884	6,623
	\$572,915	\$ 6,953	\$12,229	\$ 589	\$585,144	\$ 7,542

The unrealized losses at both June 30, 2018, and December 31, 2017, were primarily attributable to changes in market interest rates since the securities were purchased. Management systematically evaluates investment securities for other-than-temporary declines in fair value on a quarterly basis. This analysis requires management to consider various factors, which include among other considerations (1) the present value of the cash flows expected to be collected compared to the amortized cost of the security, (2) duration and magnitude of the decline in value, (3) the financial condition of the issuer or issuers, (4) structure of the security, and (5) the intent to sell the security or whether it is more likely than not the Company would be required to sell the security before its anticipated recovery in market value. At June 30, 2018, management performed its quarterly analysis of all securities with an unrealized loss

and concluded no individual securities were other-than-temporarily impaired.

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NOTE 4 - LOANS

The loan portfolio is comprised of loans originated by the Company and loans that were acquired in connection with the Company's acquisitions. These loans are accounted for using the guidance in the Accounting Standards Codification (ASC) section 310-30 and 310-20. Loans accounted for using ASC 310-30 are sometimes referred to as purchased credit impaired ("PCI") loans.

The table below shows the loan portfolio composition including carrying value categorized by loans accounted for at amortized cost, which includes our originated loans, and by loans accounted for as PCI.

(in thousands)	June 30, 2018	December 31, 2017
Loans accounted for at amortized cost	\$4,214,996	\$ 4,022,896
Loans accounted for as PCI	60,765	74,154
Total loans	\$4,275,761	\$ 4,097,050

The following tables refer to loans not accounted for as PCI loans.

Below is a summary of loans by category at June 30, 2018 and December 31, 2017:

(in thousands)	June 30, 2018	December 31, 2017
Commercial and industrial	\$2,038,040	\$ 1,918,720
Real estate:		
Commercial - investor owned	819,427	769,275
Commercial - owner occupied	593,138	554,589
Construction and land development	300,117	303,091
Residential	318,055	341,312
Total real estate loans	2,030,737	1,968,267
Consumer and other	147,304	137,234
Loans, before unearned loan fees	4,216,081	4,024,221
Unearned loan fees, net	(1,085)	(1,325)
Loans, including unearned loan fees	\$4,214,996	\$ 4,022,896

A summary of the activity in the allowance for loan losses and the recorded investment in loans by class and category based on impairment methodology through June 30, 2018, and at December 31, 2017, is as follows:

(in thousands)	Commercial and industrial	CRE - investor owned	CRE - owner occupied	Construction and land development	Residential real estate	Consumer and other	Total
Allowance for loan losses:							
Balance at December 31, 2017	\$ 26,406	\$ 3,890	\$ 3,308	\$ 1,487	\$ 2,237	\$ 838	\$38,166
Provision (provision reversal) for loan losses	780	648	190	35	259	(41)	1,871
Losses charged off	(732)	—	—	—	(254)	(49)	(1,035)
Recoveries	956	8	4	206	73	14	1,261
Balance at March 31, 2018	\$ 27,410	\$ 4,546	\$ 3,502	\$ 1,728	\$ 2,315	\$ 762	\$40,263
Provision (provision reversal) for loan losses	2,852	5	340	(206)	(573)	(33)	2,385

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Losses charged off	(956)	—	—	—	(38)	(33)	(1,027)
Recoveries	118	10	3	168	59	28	386
Balance at June 30, 2018	\$ 29,424	\$ 4,561	\$ 3,845	\$ 1,690	\$ 1,763	\$ 724	-\$42,007

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(in thousands)	Commercial and industrial	CRE - investor owned	CRE - owner occupied	Construction and land development	Residential real estate	Consumer and other	Total
Balance June 30, 2018							
Allowance for loan losses - Ending balance:							
Individually evaluated for impairment	\$3,667	\$—	\$219	\$—	\$—	\$—	\$3,886
Collectively evaluated for impairment	25,757	4,561	3,626	1,690	1,763	724	38,121
Total	\$29,424	\$4,561	\$3,845	\$1,690	\$1,763	\$724	\$42,007
Loans - Ending balance:							
Individually evaluated for impairment	\$11,226	\$410	\$2,150	\$435	\$1,669	\$318	\$16,208
Collectively evaluated for impairment	2,026,814	819,017	590,988	299,682	316,386	145,901	4,198,788
Total	\$2,038,040	\$819,427	\$593,138	\$300,117	\$318,055	\$146,219	\$4,214,996
Balance December 31, 2017							
Allowance for loan losses - Ending balance:							
Individually evaluated for impairment	\$2,508	\$—	\$71	\$—	\$—	\$—	\$2,579
Collectively evaluated for impairment	23,898	3,890	3,237	1,487	2,237	838	35,587
Total	\$26,406	\$3,890	\$3,308	\$1,487	\$2,237	\$838	\$38,166
Loans - Ending balance:							
Individually evaluated for impairment	\$12,665	\$422	\$1,975	\$136	\$1,602	\$375	\$17,175
Collectively evaluated for impairment	1,906,055	768,853	552,614	302,955	339,710	135,534	4,005,721
Total	\$1,918,720	\$769,275	\$554,589	\$303,091	\$341,312	\$135,909	\$4,022,896

A summary of nonperforming loans individually evaluated for impairment by category at June 30, 2018 and December 31, 2017, and the income recognized on impaired loans is as follows:

(in thousands)	June 30, 2018					
	Unpaid Contractual Principal Balance	Recorded Investment With No Allowance	Recorded Investment With Allowance	Total Recorded Investment	Related Allowance	Average Recorded Investment
Commercial and industrial Real estate:	\$20,915	\$1,900	\$9,326	\$11,226	\$3,667	\$12,591
Commercial - investor owned	557	410	—	410	—	415
Commercial - owner occupied	751	259	484	743	219	750
Construction and land development	444	435	—	435	—	494
Residential	1,835	1,669	—	1,669	—	1,688
Consumer and other	332	318	—	318	—	333
Total	\$24,834	\$4,991	\$9,810	\$14,801	\$3,886	\$16,271

December 31, 2017

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(in thousands)	Unpaid Contractual Principal Balance	Recorded Investment With Allowance	Recorded Investment With Allowance	Total Recorded Investment	Related Allowance	Average Recorded Investment
Commercial and industrial	\$20,750	\$ 2,321	\$ 10,344	\$ 12,665	\$ 2,508	\$ 16,270
Real estate:						
Commercial - investor owned	560	422	—	422	—	521
Commercial - owner occupied	487	—	487	487	71	490
Construction and land development	441	136	—	136	—	331
Residential	1,730	1,602	—	1,602	—	1,735
Consumer and other	375	375	—	375	—	375
Total	\$24,343	\$ 4,856	\$ 10,831	\$ 15,687	\$ 2,579	\$ 19,722

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(in thousands)	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
Total interest income that would have been recognized under original terms	\$467	\$340	\$1,001	\$655
Total cash received and recognized as interest income on non-accrual loans	78	16	89	39
Total interest income recognized on accruing, impaired loans	13	14	23	47

The recorded investment in nonperforming loans by category at June 30, 2018 and December 31, 2017, is as follows:

(in thousands)	June 30, 2018		
	Non-accrued	Restructured, not on non-accrual	Total
Commercial and industrial	\$10,593	\$ 633	\$11,226
Real estate:			
Commercial - investor owned	410	—	410
Commercial - owner occupied	743	—	743
Construction and land development	435	—	435
Residential	1,669	—	1,669
Consumer and other	318	—	318
Total	\$14,168	\$ 633	\$14,801

(in thousands)	December 31, 2017		
	Non-accrued	Restructured, not on non-accrual	Total
Commercial and industrial	\$11,946	\$ 719	\$12,665
Real estate:			
Commercial - investor owned	422	—	422
Commercial - owner occupied	487	—	487
Construction and land development	136	—	136
Residential	1,602	—	1,602
Consumer and other	375	—	375
Total	\$14,968	\$ 719	\$15,687

At June 30, 2018, performing loans over 90 days past due and still accruing interest totaled \$4.1 million. There were no loans over 90 days past due and still accruing interest at December 31, 2017.

There were no portfolio loans restructured during the three and six months ended June 30, 2018 and 2017.

As of June 30, 2018, the Company had \$2.0 million in specific reserves allocated to \$7.9 million of loans that have been restructured. During the three and six months ended June 30, 2018 and 2017, there were no portfolio loans that subsequently defaulted.

The aging of the recorded investment in past due loans by portfolio class and category at June 30, 2018 and December 31, 2017 is shown below.

(in thousands)	June 30, 2018				
	30-89 Days Past Due	90 or More Days Past Due	Total Past Due	Current	Total
Commercial and industrial	\$2,180	\$8,070	\$10,250	\$2,027,790	\$2,038,040
Real estate:					
Commercial - investor owned	1,141	—	1,141	818,286	819,427
Commercial - owner occupied	958	484	1,442	591,696	593,138
Construction and land development	—	—	—	300,117	300,117
Residential	895	1,031	1,926	316,129	318,055
Consumer and other	—	—	—	146,219	146,219
Total	\$5,174	\$9,585	\$14,759	\$4,200,237	\$4,214,996

(in thousands)	December 31, 2017				
	30-89 Days Past Due	90 or More Days Past Due	Total Past Due	Current	Total
Commercial and industrial	\$7,882	\$1,770	\$9,652	\$1,909,068	\$1,918,720
Real estate:					
Commercial - investor owned	934	—	934	768,341	769,275
Commercial - owner occupied	—	—	—	554,589	554,589
Construction and land development	76	—	76	303,015	303,091
Residential	1,529	945	2,474	338,838	341,312
Consumer and other	407	—	407	135,502	135,909
Total	\$10,828	\$2,715	\$13,543	\$4,009,353	\$4,022,896

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

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

Grade 4 – Includes loans to borrowers with positive trends in profitability, satisfactory capitalization and balance sheet condition, and sufficient liquidity and cash flow.

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

Grade 6 – Includes loans to borrowers where an adverse change or perceived weakness has occurred, but may be correctable in the near future. Alternatively, this rating category may also include circumstances where the borrower is starting to reverse a negative trend or condition, or has recently been upgraded from a 7, 8, or 9 rating.

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

and/or guarantor support.

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

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

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

The recorded investment by risk category of the loans by portfolio class and category at June 30, 2018, which is based upon the most recent analysis performed, and December 31, 2017 is as follows:

(in thousands)	June 30, 2018			
	Pass (1-6)	Watch (7)	Substandard (8)	Total
Commercial and industrial	\$1,853,440	\$128,087	\$56,513	\$2,038,040
Real estate:				
Commercial - investor owned	785,920	28,442	5,065	819,427
Commercial - owner occupied	537,740	49,926	5,472	593,138
Construction and land development	289,263	10,301	553	300,117
Residential	307,727	2,859	7,469	318,055
Consumer and other	145,289	612	318	146,219
Total	\$3,919,379	\$220,227	\$75,390	\$4,214,996

(in thousands)	December 31, 2017			
	Pass (1-6)	Watch (7)	Substandard (8)	Total
Commercial and industrial	\$1,769,102	\$94,002	\$55,616	\$1,918,720
Real estate:				
Commercial - investor owned	754,010	10,840	4,425	769,275
Commercial - owner occupied	514,616	34,440	5,533	554,589
Construction and land development	292,766	9,983	342	303,091
Residential	329,742	3,648	7,922	341,312
Consumer and other	134,704	10	1,195	135,909
Total	\$3,794,940	\$152,923	\$75,033	\$4,022,896

Below is a summary of PCI loans by category at June 30, 2018 and December 31, 2017:

(in thousands)	June 30, 2018		December 31, 2017	
	Weighted-Average Risk Rating ¹	Recorded Investment PCI Loans	Weighted-Average Risk Rating ¹	Recorded Investment PCI Loans
Commercial and industrial	6.47	\$ 2,711	6.38	\$ 3,212
Real estate:				
Commercial - investor owned	7.37	30,539	7.36	42,887
Commercial - owner occupied	7.02	13,269	6.48	11,332
Construction and land development	6.02	5,121	5.99	5,883
Residential	6.05	9,102	5.99	10,781
Consumer and other	5.20	23	2.84	59
Total		\$ 60,765		\$ 74,154

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

The aging of the recorded investment in past due PCI loans by portfolio class and category at June 30, 2018 and December 31, 2017 is shown below:

(in thousands)	June 30, 2018			Current	Total
	30-89 Days Past Due	90 or More Days Past Due	Total Past Due		
Commercial and industrial	\$—	\$—	\$—	\$2,711	\$2,711
Real estate:					
Commercial - investor owned	685	—	685	29,854	30,539
Commercial - owner occupied	735	728	1,463	11,806	13,269
Construction and land development	149	—	149	4,972	5,121
Residential	37	275	312	8,790	9,102
Consumer and other	1	—	1	22	23
Total	\$1,607	\$1,003	\$2,610	\$58,155	\$60,765

(in thousands)	December 31, 2017			Current	Total
	30-89 Days Past Due	90 or More Days Past Due	Total Past Due		
Commercial and industrial	\$—	\$—	\$—	\$3,212	\$3,212
Real estate:					
Commercial - investor owned	—	3,034	3,034	39,853	42,887
Commercial - owner occupied	—	673	673	10,659	11,332
Construction and land development	—	—	—	5,883	5,883
Residential	328	255	583	10,198	10,781
Consumer and other	—	—	—	59	59
Total	\$328	\$3,962	\$4,290	\$69,864	\$74,154

The following table is a roll forward of PCI loans, net of the allowance for loan losses, for the six months ended June 30, 2018 and 2017.

(in thousands)	Contractual Cashflows	Non-accretable Difference	Accretable Yield	Carrying Amount
Balance December 31, 2017	\$ 112,710	\$ 29,005	\$ 13,964	\$ 69,741
Principal reductions and interest payments	(22,667)	—	—	(22,667)
Accretion of loan discount	—	—	(3,400)	3,400
Changes in contractual and expected cash flows due to remeasurement	3,281	(8,771)	4,124	7,928
Balance June 30, 2018	\$ 93,324	\$ 20,234	\$ 14,688	\$ 58,402
Balance December 31, 2016	\$ 66,003	\$ 18,902	\$ 13,176	\$ 33,925
Acquisitions	68,763	14,296	5,312	49,155
Principal reductions and interest payments	(10,781)	—	—	(10,781)
Accretion of loan discount	—	—	(3,534)	3,534
Changes in contractual and expected cash flows due to remeasurement	5,641	(1,383)	1,328	5,696
Reductions due to disposals	(5,070)	(1,317)	(1,398)	(2,355)
Balance June 30, 2017	\$ 124,556	\$ 30,498	\$ 14,884	\$ 79,174

The accretable yield is recognized in interest income over the estimated life of the acquired loans using the effective yield method. Outstanding customer balances on PCI loans were \$81.1 million and \$94.9 million as of June 30, 2018, and December 31, 2017, respectively.

NOTE 5 - COMMITMENTS AND CONTINGENCIES

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

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

The Company uses the same credit policies in making commitments and conditional obligations as it does for financial instruments included on its consolidated balance sheets. At June 30, 2018, the amount of unadvanced commitments on impaired loans was insignificant.

The contractual amounts of off-balance-sheet financial instruments as of June 30, 2018, and December 31, 2017, are as follows:

(in thousands)	June 30, 2018	December 31, 2017
Commitments to extend credit	\$ 1,272,570	\$ 1,298,423
Letters of credit	54,647	73,790

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments usually have fixed expiration dates or other termination clauses, may have

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significant usage restrictions, and may require payment of a fee. Of the total commitments to extend credit at June 30, 2018, and December 31, 2017, approximately \$103.4 million and \$112.0 million, respectively, represent fixed rate loan commitments. Since certain of the commitments may expire without being drawn upon or may be revoked, the total commitment amounts do not necessarily represent future cash requirements. The Company evaluates each customer's credit worthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Company upon extension of credit, is based on management's credit evaluation of the borrower. Collateral held varies, but may include accounts receivable, inventory, premises and equipment, and real estate. Other liabilities includes \$0.4 million for estimated losses attributable to the unadvanced commitments at June 30, 2018, and December 31, 2017.

Standby letters of credit are conditional commitments issued by the Company to guarantee the performance or payment of a customer to a third party. These standby letters of credit are issued to support contractual obligations of the Company's customers. The credit risk involved in issuing letters of credit is essentially the same as the risk involved in extending loans to customers. As of June 30, 2018, the approximate remaining terms of standby letters of credit range from 1 month to 3 years and 6 months.

Contingencies

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

NOTE 6 - DERIVATIVE FINANCIAL INSTRUMENTS

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

Hedging Instruments. At June 30, 2018, the Company has no outstanding derivative contracts used to manage risk.

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

(in thousands)	Notional Amount		Asset Derivatives (Other Assets)		Liability Derivatives (Other Liabilities)	
			Fair Value		Fair Value	
	June 30, 2018	December 31, 2017	June 30, 2018	December 31, 2017	June 30, 2018	December 31, 2017
Non-designated hedging instruments						
Interest rate swap contracts	\$ 404,643	\$ 394,852	\$ 4,016	\$ 2,061	\$ 4,016	\$ 2,061
Foreign exchange forward contracts	1,342	1,528	1,342	1,528	1,342	1,528

Changes in the fair value of client-related derivative instruments are recognized currently in operations. For the three and six months ended June 30, 2018 and 2017, the gains and losses offset each other due to the Company's hedging of

the client swaps and foreign exchange contracts with other bank counterparties.

NOTE 7 - FAIR VALUE MEASUREMENTS

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

The following table summarizes financial instruments measured at fair value on a recurring basis as of June 30, 2018 and December 31, 2017, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value:

(in thousands)	June 30, 2018			Total Fair Value
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Assets				
Securities available for sale				
Obligations of U.S. Government-sponsored enterprises	\$ —	\$ 98,044	\$ —	\$ 98,044
Obligations of states and political subdivisions	—	31,944	—	31,944
Residential mortgage-backed securities	—	511,289	—	511,289
U.S. Treasury bills	—	9,863	—	9,863
Total securities available for sale	\$ —	\$ 651,140	\$ —	\$ 651,140
Other investments	179	—	—	179
State tax credits held for sale	—	—	299	299
Derivative financial instruments	—	5,358	—	5,358
Total assets	\$ 179	\$ 656,498	\$ 299	\$ 656,976
Liabilities				
Derivative financial instruments	\$ —	\$ 5,358	\$ —	\$ 5,358
Total liabilities	\$ —	\$ 5,358	\$ —	\$ 5,358
December 31, 2017				
(in thousands)	December 31, 2017			Total Fair Value
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Assets				
Securities available for sale				
Obligations of U.S. Government-sponsored enterprises	\$ —	\$ 99,224	\$ —	\$ 99,224

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Obligations of states and political subdivisions	—34,642	—	34,642
Residential mortgage-backed securities	—507,516	—	507,516
Total securities available for sale	\$—641,382	\$ —	\$641,382
State tax credits held for sale	—	400	400
Derivative financial instruments	—3,589	—	3,589
Total assets	\$—644,971	\$ 400	\$645,371
Liabilities			
Derivative financial instruments	\$—3,589	\$ —	\$3,589
Total liabilities	\$—3,589	\$ —	\$3,589

Securities available for sale. Securities classified as available for sale are reported at fair value utilizing Level 2 and Level 3 inputs. Fair values for Level 2 securities are based upon dealer quotes, market spreads, the U.S.

Treasury yield curve, trade execution data, market consensus prepayment speeds, credit information and the bond's terms and conditions at the security level.

Other investments. At June 30, 2018, of the \$36.1 million of other investments on the condensed consolidated balance sheet, approximately \$0.2 million were carried at fair value. The remaining \$35.9 million of other investments were accounted for at cost. Other investments reported at fair value represent equity securities with quoted market prices (Level 1).

State tax credits held for sale. At June 30, 2018, of the \$46.5 million of state tax credits held for sale on the condensed consolidated balance sheet, approximately \$0.3 million were carried at fair value. The remaining \$46.2 million of state tax credits were accounted for at cost.

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

The remaining state tax credits carried at fair value are expected to be sold within the next several quarters. The state tax credit assets are reported as Level 3 assets.

Derivatives. Derivatives are reported at fair value utilizing Level 2 inputs. The Company obtains counterparty quotations to value its interest rate swaps. In addition, the Company validates the counterparty quotations with third party valuation sources. Derivatives with negative fair values are included in Other liabilities in the consolidated balance sheets. Derivatives with positive fair value are included in Other assets in the consolidated balance sheets. There were no transfers between Level 1 and Level 2 during the three and six months ended June 30, 2018 and 2017.

Level 3 financial instruments

The following table presents the changes in Level 3 financial instruments measured at fair value on a recurring basis as of June 30, 2018 and 2017.

Purchases, sales, issuances and settlements. There were no Level 3 purchases during the quarters ended June 30, 2018 or 2017.

Transfers in and/or out of Level 3. There were no Level 3 transfers during the quarter ended June 30, 2018. There was \$3.1 million in Level 3 transfers to Level 2 during the quarter ended June 30, 2017.

	Securities available for sale, at fair value	
	Three months ended June 30, 2018	Six months ended June 30, 2017
(in thousands)		
Beginning balance	\$-3,093	\$-3,089
Total gains:		
Included in other comprehensive income	—	—4
Purchases, sales, issuances and settlements:		
Purchases	—	—
Transfer in and/or out of Level 3	—(3,093)	—(3,093)
Ending balance	\$—	\$—
Change in unrealized gains relating to assets still held at the reporting date	\$—	\$—

(in thousands)	State tax credits held for sale			
	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
Beginning balance	\$350	\$1,458	\$400	\$3,585
Total gains:				
Included in earnings	3	9	6	49
Purchases, sales, issuances and settlements:				
Sales	(54)	(193)	(107)	(2,360)
Ending balance	\$299	\$1,274	\$299	\$1,274
Change in unrealized gains (losses) relating to assets still held at the reporting date	\$(13)	\$(49)	\$(26)	\$(655)

From time to time, the Company measures certain assets at fair value on a nonrecurring basis. These include assets that are measured at the lower of cost or fair value that were recognized at fair value below cost at the end of the period. The following table presents financial instruments and non-financial assets measured at fair value on a non-recurring basis as of June 30, 2018.

(in thousands)	(1)	(1)	(1)	(1)	Total losses for the three months ended June 30, 2018	Total losses for the six months ended June 30, 2018
	Total Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)		
Impaired loans	\$1,486	\$	—\$	—\$ 1,486	\$ 900	\$1,609
Other real estate	454	—	—	454	1	44
Total	\$1,940	\$	—\$	—\$ 1,940	\$ 901	\$1,653

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

Impaired loans are reported at the fair value of the underlying collateral for collateral dependent loans. Fair values for impaired loans are obtained from current appraisals by qualified licensed appraisers or independent valuation specialists. At June 30, 2018, impaired loans measured on a non-recurring basis had a principal balance of \$2.4 million, with a valuation allowance of \$0.9 million.

Other real estate owned is adjusted to fair value upon foreclosure of the underlying loan. Subsequently, foreclosed assets are carried at the lower of carrying value or fair value less costs to sell. Fair value of other real estate is based upon the current appraised values of the properties as determined by qualified licensed appraisers and the Company's judgment of other relevant market conditions.

Following is a summary of the carrying amounts and fair values of the Company's financial instruments on the consolidated balance sheets at June 30, 2018 and December 31, 2017. Fair values that are not estimable are listed at the carrying value.

(in thousands)	June 30, 2018		December 31, 2017	
	Carrying Amount	Estimated fair value	Carrying Amount	Estimated fair value
Balance sheet assets				
Cash and due from banks	\$91,851	\$91,851	\$91,084	\$91,084
Federal funds sold	1,445	1,445	1,223	1,223
Interest-bearing deposits	86,141	86,141	63,661	63,661
Securities available for sale	651,140	651,140	641,382	641,382
Securities held to maturity	68,931	66,909	73,749	73,458
Other investments, at cost	36,132	36,132	26,661	26,661
Loans held for sale	1,388	1,388	3,155	3,155
Derivative financial instruments	5,358	5,358	3,589	3,589
Portfolio loans, net	4,231,394	4,252,679	4,054,473	4,096,741
State tax credits, held for sale	46,481	45,069	43,468	44,271
Accrued interest receivable	17,808	17,808	14,069	14,069
Balance sheet liabilities				
Deposits	4,247,912	4,242,061	4,156,414	4,153,323
Subordinated debentures and notes	118,131	105,889	118,105	105,031
Federal Home Loan Bank advances	361,534	361,531	172,743	172,893
Other borrowings	167,216	167,086	253,674	253,530
Derivative financial instruments	5,358	5,358	3,589	3,589
Accrued interest payable	1,884	1,884	1,730	1,730

For information regarding the methods and assumptions used to estimate the fair value of each class of financial instruments for which it is practical to estimate such value, refer to Note 18 – Fair Value Measurements in the Company's Annual Report on Form 10-K for the year ended December 31, 2017.

The following table presents the level in the fair value hierarchy for the estimated fair values of only the Company's financial instruments that are not already presented on the condensed consolidated balance sheets at fair value at June 30, 2018, and December 31, 2017.

(in thousands)	Estimated Fair Value			Balance at June 30, 2018
	Measurement at		Reporting Date Using	
	Level 1	Level 2			Level 3
Financial Assets:				
Securities held to maturity	\$—	\$66,909	\$—	\$66,909
Portfolio loans, net	—	—	4,252,679	4,252,679
State tax credits, held for sale	—	—	44,770	44,770
Financial Liabilities:				
Deposits	3,574,581	—	667,480	4,242,061
Subordinated debentures and notes	105,889	—	—	105,889
Federal Home Loan Bank advances	361,531	—	—	361,531
Other borrowings	167,086	—	—	167,086

(in thousands)	Estimated Fair Value			Balance at December 31, 2017
	Measurement at		Reporting Date Using	
	Level 1	Level 2			Level 3
Financial Assets:				
Securities held to maturity	\$—	\$73,458	\$—	\$73,458
Portfolio loans, net	—	—	4,096,741	4,096,741
State tax credits, held for sale	—	—	43,871	43,871
Financial Liabilities:				
Deposits	3,577,641	—	575,682	4,153,323
Subordinated debentures and notes	105,031	—	—	105,031
Federal Home Loan Bank advances	172,893	—	—	172,893
Other borrowings	253,530	—	—	253,530

NOTE 8 - NEW AUTHORITATIVE ACCOUNTING GUIDANCE

Financial Accounting Standards Board (the "FASB") ASU 2017-08 "Receivables - Nonrefundable Fees and Other Costs (Subtopic 310-20), Premium Amortization on Purchased Callable Debt Securities" In March 2017, the FASB issued ASU 2017-08, "Receivables - Nonrefundable Fees and Other Costs (Subtopic 310-20)" which shortens the amortization period of certain callable debt securities held at a premium to the earliest call date. The amendments are effective for public business entities for annual periods beginning after December 15, 2018, including interim periods within those annual periods, with early adoption being permitted. The Company has evaluated the new guidance and does not expect it to have a material impact on the Company's consolidated financial statements. At June 30, 2018, the book value of callable bonds that were purchased at a premium totaled \$22.0 million, and the amount of unamortized premium remaining on these securities was \$0.8 million.

FASB ASU 2016-13 "Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments" In June 2016, the FASB issued ASU 2016-13, "Financial Instruments (Topic 326)" which changes the

methodology for evaluating impairment of most financial instruments. The ASU replaces the currently used incurred loss model with a forward-looking expected loss model, which will generally result in a more timely recognition of losses. The guidance becomes effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. Early adoption is permitted for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. The Company has formed an implementation team that includes members of accounting, credit, and loan operations to review the requirements of ASU 2016-13, and has contracted with a

software provider to aid in implementation. The Company has not determined the impact this standard may have on its financial statements.

FASB ASU 2016-02 "Leases (Topic 842)" In February 2016, the FASB issued ASU 2016-02, "Leases (Topic 842)" which requires organizations that lease assets ("lessees") to recognize the assets and liabilities for the rights and obligations created by leases with terms of more than 12 months. The recognition, measurement, and presentation of expenses and cash flows arising from a lease by a lessee remains dependent on its classification as a finance or operating lease. The criteria for determining whether a lease is a finance or operating lease has not been significantly changed by this ASU. The ASU also requires additional disclosure of the amount, timing, and uncertainty of cash flows arising from leases, including qualitative and quantitative requirements. The guidance becomes effective for periods beginning after December 15, 2018, including interim periods therein. Early adoption will be permitted. The Company has formed a lease implementation team that includes members of accounting, facilities and operations to review lease contracts and the requirements of ASU 2016-02. The Company expects the adoption of this standard will increase total assets on the Company's consolidated balance sheet and utilize capital.

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

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

Some of the information in this report contains "forward-looking statements" within the meaning of and intended to be covered by the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Forward-looking statements typically are identified with use of terms such as "may," "might," "will," "should," "expect," "plan," "anticipate," "b," "estimate," "predict," "potential," "could," "continue" and the negative of these terms and similar words, although some forward-looking statements may be expressed differently. Forward-looking statements also include, but are not limited to, statements regarding plans, objectives, expectations or consequences of statements about the future performance, operations products and services of the Company and its subsidiaries. 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: our ability to efficiently integrate acquisitions into our operations, retain the customers of these businesses and grow the acquired operations; credit risk; changes in the appraised valuation of real estate securing impaired loans; outcomes of litigation and other contingencies; exposure to general and local economic conditions; risks associated with rapid increases or decreases in prevailing interest rates; consolidation within the banking industry; competition from banks and other financial institutions; our ability to attract and retain relationship officers and other key personnel; burdens imposed by federal and state regulation; changes in regulatory requirements; changes in accounting regulation or standards applicable to banks; and other risks discussed under the caption "Risk Factors" of our most recently filed Form 10-K or within this Form 10-Q, all of which could cause the Company's actual results to differ from those set forth in the forward-looking statements.

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

Introduction

The following discussion describes the significant changes to the financial condition of the Company that have occurred during the first six months of 2018 compared to the financial condition as of December 31, 2017. In addition, this discussion summarizes the significant factors affecting the results of operations, liquidity and cash flows of the Company for the three and six months ended June 30, 2018, compared to the same periods in 2017. This discussion should be read in conjunction with the accompanying condensed consolidated financial statements included in this report and our Annual Report on Form 10-K for the year ended December 31, 2017.

Executive Summary

Below are highlights of our financial performance for the three and six months ended June 30, 2018, as compared to the linked quarter ended March 31, 2018, and prior year period. The Company closed its acquisition of Jefferson County Bancshares, Inc. ("JCB") on February 10, 2017. The results of operations of JCB are included in our consolidated results since this date and, therefore, were not included for the full six months prior year period.

(in thousands, except per share data)	For the Three Months ended/At			For the Six Months ended		
	June 30, 2018	March 31, 2018	June 30, 2017	June 30, 2018	June 30, 2017	
EARNINGS						
Total interest income	\$57,879	\$55,164	\$51,542	\$113,043	\$95,282	
Total interest expense	10,831	8,993	5,909	19,824	11,007	
Net interest income	47,048	46,171	45,633	93,219	84,275	
Provision for portfolio loans	2,385	1,871	3,623	4,256	5,156	
Provision reversal for PCI loans	(1,995)	—	(207)	(1,995)	(355)	
Net interest income after provision for loan losses	46,658	44,300	42,217	90,958	79,474	
Total noninterest income	9,693	9,542	7,934	19,235	14,910	
Total noninterest expense	29,219	29,143	32,651	58,362	59,387	
Income before income tax expense	27,132	24,699	17,500	51,831	34,997	
Income tax expense	4,881	3,778	5,545	8,659	10,651	
Net income	\$22,251	\$20,921	\$11,955	\$43,172	\$24,346	
Basic earnings per share	\$0.96	\$0.91	\$0.51	\$1.87	\$1.07	
Diluted earnings per share	0.95	0.90	0.50	1.85	1.06	
Return on average assets	1.65	% 1.59	% 0.96	% 1.62	% 1.02	%
Return on average common equity	15.70	% 15.31	% 8.78	% 15.51	% 9.64	%
Return on average tangible common equity	20.23	% 19.92	% 11.49	% 20.08	% 12.20	%
Net interest margin (fully tax equivalent)	3.77	% 3.80	% 3.98	% 3.79	% 3.86	%
Efficiency ratio	51.50	% 52.31	% 60.95	% 51.90	% 59.87	%
Tangible book value per common share	\$19.32	\$18.49	\$17.89			
ASSET QUALITY ⁽¹⁾						
Net charge-offs (recoveries)	\$641	\$(226)	\$6,104	\$415	\$6,048	
Nonperforming loans	14,801	15,582	13,081			
Classified assets	74,001	77,195	93,795			
Nonperforming loans to portfolio loans	0.35	% 0.38	% 0.34	%		
Nonperforming assets to total assets ⁽¹⁾	0.28	% 0.30	% 0.27	%		
Allowance for loan losses to portfolio loans	1.00	% 0.98	% 0.96	%		
Net charge-offs to average loans (annualized)	0.06	% (0.02)	% 0.64	% 0.01	% 0.33	%

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

Below are highlights of the Company's Core performance measures, which we believe are important measures of financial performance, but are non-GAAP measures. For additional information, refer to the reconciliation of Core performance measures included in this MD&A section under the caption "Use of Non-GAAP Financial Measures".

(in thousands)	For the Three Months ended			For the Six Months ended		
	June 30, 2018	March 31, 2018	June 30, 2017	June 30, 2018	June 30, 2017	
CORE PERFORMANCE MEASURES (1)						
Net interest income	\$46,757	\$45,405	\$43,049	\$92,162	\$80,616	
Provision for portfolio loans	2,385	1,871	3,623	4,256	5,156	
Noninterest income	9,026	8,520	7,934	17,546	14,910	
Noninterest expense	29,209	29,129	27,798	58,338	52,744	
Income before income tax expense	24,189	22,925	19,562	47,114	37,626	
Income tax expense	4,145	3,340	6,329	7,485	11,245	
Net income	\$20,044	\$19,585	\$13,233	\$39,629	\$26,381	
Earnings per share	\$0.86	\$0.84	\$0.56	\$1.70	\$1.15	
Return on average assets	1.48	% 1.49	% 1.06	% 1.49	% 1.11	%
Return on average common equity	14.14	% 14.34	% 9.72	% 14.24	% 10.44	%
Return on average tangible common equity	18.22	% 18.64	% 12.72	% 18.43	% 13.22	%
Net interest margin (fully tax equivalent)	3.75	% 3.74	% 3.76	% 3.74	% 3.70	%
Efficiency ratio	52.36	% 54.02	% 54.52	% 53.18	% 55.21	%

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

For the six months ended June 30, 2018 compared to the six months ended June 30, 2017, the Company noted the following trends:

The Company reported net income of \$43.2 million, or \$1.85 per diluted share, for the six months ended June 30, 2018, compared to \$24.3 million, or \$1.06 per diluted share, for the same period in 2017. The \$0.79 increase in earnings per share primarily increased from growth in the balance sheet resulting from organic loan and deposit growth, fee income growth, and corporate tax reform.

On a core basis¹, net income grew 50% to \$39.6 million, or \$1.70 per diluted share, for the six months ended June 30, 2018, compared to \$26.4 million, or \$1.15 per diluted share, in the prior year period. The diluted core earnings per share¹ increase of \$0.55 continues to be driven by revenue growth, which expanded \$14.2 million, or 15%.

Net interest income for the first six months of 2018 increased \$8.9 million or 11%, from the prior year period due to strong portfolio loan growth and a higher average yield partially offset by an increase in cost of funds and a reduction in incremental accretion on non-core acquired loans.

Net interest margin for the first six months of 2018 decreased seven basis points to 3.79% when compared to the prior year period of 3.86%. Core net interest margin¹, which excludes incremental accretion on non-core acquired loans, increased four basis points to 3.74% for the first six months of 2018 from the prior year period primarily due to the impact of interest rate increases on portfolio loans out-pacing the increase in deposit and borrowing costs.

Noninterest income for the first six months of 2018 increased \$4.3 million or 29%, compared to the prior year period primarily due to \$2.0 million of nonrecurring revenue along with higher income from deposit service charges and card services from growth in the client base.

Noninterest expenses were \$58.4 million for the six months ended June 30, 2018, compared to \$59.4 million for the comparable period in 2017. Noninterest expenses for the 2017 period included \$6.1 million of merger related expenses. Core noninterest expenses¹ were \$58.3 million for the six months ended June 30, 2018, compared to \$52.7 million for the prior year period primarily due to increases in compensation and benefit expense from investments in revenue producing personnel, tax credit amortization of \$1.6 million, and other operating expenses from the acquisition of JCB.

Balance sheet highlights:

Loans – Portfolio loans increased to \$4.3 billion at June 30, 2018, increasing \$186 million when compared to December 31, 2017 primarily in the commercial and industrial, and commercial real estate categories.

Deposits – Total deposits at June 30, 2018 were \$4.2 billion, an increase of \$91 million, or 2% from December 31, 2017. Core deposits, defined as total deposits excluding time deposits, were \$3.6 billion at June 30, 2018, a decrease of \$58 million, or 1.61% from the linked quarter, but an increase of \$246 million, or 7.40%, when compared to the prior year period.

Asset quality – Nonperforming loans were \$14.8 million at June 30, 2018, compared to \$14.9 million at December 31, 2017. Nonperforming loans represented 0.35% and 0.38% of portfolio loans at June 30, 2018 and December 31, 2017, respectively.

Provision for portfolio loan losses was \$4.3 million for the six months ended June 30, 2018, compared to \$5.2 million for the six months ended June 30, 2017. See Item 1, Note 5 – Portfolio Loans, and Provision and Allowance for Loan Losses in this section for more information.

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

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RESULTS OF OPERATIONS

Net Interest Income

Average Balance Sheet

Non-core acquired loans were those acquired from the FDIC and were previously covered by shared-loss agreements. These loans continue to be accounted for as purchased credit impaired loans. Approximately \$37 million of loans acquired from JCB's portfolio are also accounted for as purchased credit impaired loans. However, all loans acquired from JCB are included in portfolio loans. The following table presents, for the periods indicated, certain information related to our average interest-earning assets and interest-bearing liabilities, as well as, the corresponding interest rates earned and paid, all on a tax equivalent basis.

(in thousands)	Three months ended June 30, 2018			2017		
	Average Balance	Interest Income/Expense	Average Yield/ Rate	Average Balance	Interest Income/Expense	Average Yield/ Rate
Assets						
Interest-earning assets:						
Taxable portfolio loans (1)	\$4,162,720	\$ 51,783	4.99 %	\$3,802,103	\$ 43,678	4.61 %
Tax-exempt portfolio loans (2)	35,117	474	5.41	42,157	712	6.77
Non-core acquired loans - contractual	26,179	517	7.92	36,767	605	6.60
Non-core acquired loans - incremental accretion		291	4.46		2,584	28.19
Total loans	4,224,016	53,065	5.04	3,881,027	47,579	4.92
Taxable investments in debt and equity securities	703,185	4,429	2.53	623,305	3,697	2.38
Non-taxable investments in debt and equity securities (2)	40,349	360	3.58	44,476	489	4.41
Short-term investments	56,057	231	1.65	92,390	234	1.02
Total securities and short-term investments	799,591	5,020	2.52	760,171	4,420	2.33
Total interest-earning assets	5,023,607	58,085	4.64	4,641,198	51,999	4.49
Noninterest-earning assets:						
Cash and due from banks	88,731			76,355		
Other assets	348,223			345,167		
Allowance for loan losses	(45,410)			(45,507)		
Total assets	\$5,415,151			\$5,017,213		
Liabilities and Shareholders' Equity						
Interest-bearing liabilities:						
Interest-bearing transaction accounts	\$823,650	\$ 817	0.40 %	\$789,922	\$ 523	0.27 %
Money market accounts	1,494,194	4,445	1.19	1,309,864	1,938	0.59
Savings	208,662	147	0.28	200,405	125	0.25
Certificates of deposit	633,897	2,338	1.48	600,709	1,373	0.92
Total interest-bearing deposits	3,160,403	7,747	0.98	2,900,900	3,959	0.55
Subordinated debentures	118,124	1,454	4.94	118,072	1,288	4.37
FHLB advances	294,643	1,448	1.97	182,472	522	1.14
Other borrowed funds	167,661	182	0.44	233,401	140	0.24
Total interest-bearing liabilities	3,740,831	10,831	1.16	3,434,845	5,909	0.69
Noninterest bearing liabilities:						
Demand deposits	1,069,888			1,008,700		
Other liabilities	35,877			27,386		

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Total liabilities	4,846,596	4,470,931	
Shareholders' equity	568,555	546,282	
Total liabilities & shareholders' equity	\$5,415,151	\$5,017,213	
Net interest income	\$ 47,254		\$ 46,090
Net interest spread		3.48 %	3.80 %
Net interest margin		3.77 %	3.98 %
Core net interest margin (3)		3.75 %	3.76 %

(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 \$1.0 million and \$0.8 million for the three months ended June 30, 2018 and 2017 respectively.

(2) Non-taxable income is presented on a fully tax-equivalent basis using a 24.7% and 38.0% tax rate in 2018 and 2017, respectively. The tax-equivalent adjustments were \$0.2 million and \$0.5 million for the three months ended June 30, 2018 and 2017, respectively.

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

(in thousands)	Six months ended June 30, 2018			2017		
	Average Balance	Interest Income/Expense	Average Yield/ Rate	Average Balance	Interest Income/Expense	Average Yield/ Rate
Assets						
Interest-earning assets:						
Taxable portfolio loans (1)	\$4,117,928	\$ 100,675	4.93 %	\$3,635,296	\$ 81,505	4.52 %
Tax-exempt portfolio loans (2)	36,156	963	5.37	43,482	1,405	6.52
Non-core acquired loans - contractual	27,644	942	6.87	38,020	1,200	6.36
Non-core acquired loans - incremental accretion		1,057	7.71		3,659	19.41
Total loans	4,181,728	103,637	5.00	3,716,798	87,769	4.76
Taxable investments in debt and equity securities	700,835	8,621	2.48	602,070	6,995	2.34
Non-taxable investments in debt and equity securities (2)	41,233	735	3.59	50,518	1,111	4.43
Short-term investments	62,651	471	1.52	81,867	364	0.90
Total securities and short-term investments	804,719	9,827	2.46	734,455	8,470	2.33
Total interest-earning assets	4,986,447	113,464	4.59	4,451,253	96,239	4.36
Noninterest-earning assets:						
Cash and due from banks	88,681			75,794		
Other assets	347,305			314,478		
Allowance for loan losses	(44,594)			(44,899)		
Total assets	\$5,377,839			\$4,796,626		
Liabilities and Shareholders' Equity						
Interest-bearing liabilities:						
Interest-bearing transaction accounts	\$843,172	\$ 1,623	0.39 %	\$777,731	\$ 1,198	0.31 %
Money market accounts	1,442,910	7,798	1.09	1,251,929	3,431	0.55
Savings	205,276	272	0.27	177,504	207	0.24
Certificates of deposit	618,900	4,237	1.38	574,850	2,588	0.91
Total interest-bearing deposits	3,110,258	13,930	0.90	2,782,014	7,424	0.54
Subordinated debentures	118,117	2,822	4.82	115,300	2,452	4.29
FHLB advances	298,573	2,706	1.83	163,791	852	1.05
Other borrowed funds	187,442	366	0.39	239,687	279	0.23
Total interest-bearing liabilities	3,714,390	19,824	1.08	3,300,792	11,007	0.67
Noninterest bearing liabilities:						
Demand deposits	1,067,343			958,107		
Other liabilities	34,755			28,343		
Total liabilities	4,816,488			4,287,242		
Shareholders' equity	561,351			509,384		
Total liabilities & shareholders' equity	\$5,377,839			\$4,796,626		
Net interest income		\$ 93,640			\$ 85,232	
Net interest spread			3.51 %			3.69 %
Net interest margin			3.79 %			3.86 %
Core net interest margin (3)			3.74 %			3.70 %

(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 \$1.9 million and \$1.6 million for the six months ended June 30, 2018 and 2017 respectively.

Non-taxable income is presented on a fully tax-equivalent basis using a 24.7% and 38.0% tax rate in 2018 and (2)2017, respectively. The tax-equivalent adjustments were \$0.4 million and \$1.0 million for the six months ended June 30, 2018 and 2017, respectively.

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

Rate/Volume

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

(in thousands)	2018 compared to 2017					
	Three months ended June 30,			Six months ended June 30,		
	Increase (decrease) due to			Increase (decrease) due to		
	Volume(1)	Rate(2)	Net	Volume(1)	Rate(2)	Net
Interest earned on:						
Taxable portfolio loans	\$4,337	\$3,768	\$8,105	\$11,403	\$7,767	\$19,170
Tax-exempt portfolio loans (3)	(108)	(130)	(238)	(216)	(226)	(442)
Non-core acquired loans	(735)	(1,646)	(2,381)	(1,104)	(1,756)	(2,860)
Taxable investments in debt and equity securities	491	241	732	1,197	429	1,626
Non-taxable investments in debt and equity securities (3)	(42)	(87)	(129)	(185)	(191)	(376)
Short-term investments	(114)	111	(3)	(100)	207	107
Total interest-earning assets	\$3,829	\$2,257	\$6,086	\$10,995	\$6,230	\$17,225
Interest paid on:						
Interest-bearing transaction accounts	\$24	\$270	\$294	\$107	\$318	\$425
Money market accounts	305	2,202	2,507	592	3,775	4,367
Savings	6	16	22	35	30	65
Certificates of deposit	80	885	965	211	1,438	1,649
Subordinated debentures	1	165	166	61	309	370
FHLB advances	424	502	926	975	879	1,854
Borrowed funds	(48)	90	42	(71)	158	87
Total interest-bearing liabilities	792	4,130	4,922	1,910	6,907	8,817
Net interest income	\$3,037	\$(1,873)	\$1,164	\$9,085	\$(677)	\$8,408

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

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

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

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

Net interest income (on a tax equivalent basis) was \$47.3 million for the three months ended June 30, 2018, compared to \$46.1 million for the same period of 2017, an increase of \$1.2 million, or 3%. The tax-equivalent net interest margin was 3.77% for the second quarter of 2018, compared to 3.98% in the second quarter of 2017. Portfolio loan growth and higher rates supported the \$6.1 million increase in interest income over the prior year period. The yield on taxable portfolio loans increased 38 basis points from the prior year period to 4.99% for the three months ended June 30, 2018, due to increasing interest rates on the existing variable-rate loan portfolio and higher rates on newly originated loans. The run-off of higher yielding non-core acquired loans continues to negatively impact net interest margin and resulted in a \$2.4 million decrease in interest income for the three months ended June 30, 2018 compared to the prior year period.

Net interest income (on a tax equivalent basis) was \$93.6 million for the six months ended June 30, 2018, compared to \$85.2 million for the same period of 2017, an increase of \$8.4 million, or 10%. The tax-equivalent net interest margin was 3.74% for the six months ended June 30, 2018, compared to 3.86% for the prior year period. The decrease in net interest margin was primarily due to a decline in contributions from non-core acquired assets. The

increase in net interest income was primarily due to increasing interest rates on the existing variable-rate loan portfolio and higher rates on newly originated loans.

Core net interest margin¹ expanded four basis points from the prior year to 3.74% for the six months ended June 30, 2018, primarily due to loan growth improving the earning asset mix, combined with increased yield on portfolio loans out-pacing the increase to borrowing costs. The increase in the interest rate paid on deposits reflects market interest rate trends, as the Company continues to defend and attract new core deposit relationships. The Company continues to manage its balance sheet to grow core net interest income and expects to maintain core net interest margin over the coming quarters as growth in loan yields balance rising deposit prices. However, pressure on funding costs could hinder the expected trends in core net interest margin.

Non-Core Acquired Assets Contribution

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

(in thousands)	For the Three Months ended		For the Six Months ended	
	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017
Accelerated cash flows and other incremental accretion	\$291	\$2,584	\$1,057	\$3,659
Provision reversal for non-core acquired loan losses	1,995	207	1,995	355
Other income	18	—	1,031	—
Less: Other expenses (credits)	(229)	(16)	(215)	107
Non-core acquired assets income before income tax expense	\$2,533	\$2,807	\$4,298	\$3,907

Accelerated cash flows and other incremental accretion consists of the interest income on non-core acquired loans in excess of contractual interest on the loans. The contractual amount of interest is included in the Company's core results. At June 30, 2018, the remaining accretable yield on the remaining non-core acquired portfolio was estimated to be \$11 million and the non-accretable difference was approximately \$10 million. Accelerated cash flows and other incremental accretion from these loans was \$1.1 million for the six months ended June 30, 2018, and \$3.7 million for the same period in 2017. The Company estimates income from accelerated cash flows and other incremental accretion to be between \$2 million and \$3 million in total for 2018.

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

Noninterest Income

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

(in thousands)	Three months ended June 30,			
	2018	2017	Increase (decrease)	
Service charges on deposit accounts	\$3,007	\$2,816	\$191	7 %
Wealth management revenue	2,141	2,054	87	4 %
Card services revenue	1,650	1,392	258	19 %
Gain on state tax credits, net	64	9	55	611 %
Miscellaneous income - core	2,164	1,646	518	31 %
Core noninterest income (1)	9,026	7,934	1,092	14 %
Gain on sale of investment securities	—	—	—	NM
Other income from non-core acquired assets	18	—	18	NM
Other	649	—	649	NM
Total noninterest income	\$9,693	\$7,934	\$1,110	14 %

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

(in thousands)	Six months ended June 30,			
	2018	2017	Increase (decrease)	
Service charges on deposit accounts	\$5,858	\$5,326	\$532	10 %
Wealth management revenue	4,255	3,887	368	9 %
Card services revenue	3,166	2,429	737	30 %
Gain on state tax credits, net	316	255	61	24 %
Gain on sale of other real estate	—	17	(17)	(100)%
Miscellaneous income - core	3,951	2,996	955	32 %
Core noninterest income (1)	17,546	14,910	2,636	18 %
Gain on sale of investment securities	9	—	9	NM
Other income from non-core acquired assets	1,031	—	1,031	NM
Other	649	—	649	NM
Total noninterest income	\$19,235	\$14,910	\$4,325	29 %

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

Noninterest income increased \$4.3 million, or 29% in the first six months of 2018 compared to the first six months of 2017. During the six months ended June 30, 2018, the Company received a gain of \$0.6 million from the sale of an equity partnership, and a \$1.0 million gain from non-core acquired assets. Core noninterest income¹ grew 18% in the first six months of 2018. The improvement over the prior year period was primarily due to increases on deposit service charges and card services along with death benefit proceeds on an insurance policy.

The Company expects continued growth in fee income of 5% - 7% for 2018 compared to 2017.

Noninterest Expense

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

(in thousands)	Three months ended June 30,				
	2018	2017	Increase (decrease)		
Core expenses (1):					
Employee compensation and benefits	\$16,582	\$15,798	\$784	5	%
Occupancy	2,342	2,265	77	3	%
Data processing	1,533	1,806	(273)	(15)	%
FDIC and other insurance	920	650	270	42	%
Professional fees	747	1,079	(332)	(31)	%
Loan, legal and other real estate expense	206	629	(423)	(67)	%
Other	6,879	5,571	1,308	23	%
Core noninterest expense ⁽¹⁾	29,209	27,798	1,411	5	%
Merger related expenses	—	4,480	(4,480)	(100)	%
Other non-core	239	389	(150)	(39)	%
Other expenses related to non-core acquired loans	(229)	(16)	(213)	1,331	%
Total noninterest expense	\$29,219	\$32,651	\$(3,432)	(11)	%

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

(in thousands)	Six months ended June 30,				
	2018	2017	Increase (decrease)		
Core expenses (1):					
Employee compensation and benefits	\$33,073	\$31,006	\$2,067	7	%
Occupancy	4,748	4,194	554	13	%
Data processing	3,000	3,439	(439)	(13)	%
FDIC and other insurance	1,837	1,474	363	25	%
Professional fees	1,596	1,916	(320)	(17)	%
Loan, legal and other real estate expense	491	851	(360)	(42)	%
Other	13,593	9,864	3,729	38	%
Core noninterest expense ⁽¹⁾	58,338	52,744	5,594	11	%
Merger related expenses	—	6,147	(6,147)	(100)	%
Other non-core	239	389	(150)	(39)	%
Other expenses related to non-core acquired loans	(215)	107	(322)	(301)	%
Total noninterest expense	\$58,362	\$59,387	\$(1,025)	(2)	%

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

Noninterest expenses were \$58.4 million for the six months ended June 30, 2018, compared to \$59.4 million for the six months ended June 30, 2017. Noninterest expenses for the 2017 period included \$6.1 million of merger related expenses. Core noninterest expenses¹ increased \$5.6 million to \$58.3 million for the six months ended June 30, 2018, from \$52.7 million for the prior year period. Core expenses¹ increased over the prior year period due to increases in

employee compensation and benefits from investments in revenue producing personnel and \$1.6 million of tax credit amortization.

The Company's core efficiency ratio¹ improved to 53.2% for the six months ended June 30, 2018, compared to 55.2% for the prior year period, and reflects continuing efforts to leverage its expense base. The Company expects to continue to invest in revenue producing associates and other infrastructure that supports additional growth. These investments are expected to result in expense growth, at a rate of 35% - 45% of projected revenue growth for 2018, resulting in continued improvements to the Company's efficiency ratio.

Income Taxes

The Company's income tax expense for the six months ended June 30, 2018, which includes both federal and state taxes, was \$4.9 million compared to \$3.8 million for the linked quarter, and \$5.5 million for the same period in 2017. The Company's effective tax rate was 16.7% for the six months ended June 30, 2018 compared to 30.4% for the same period in 2017 due to the combination of federal income tax reform and the Company's tax planning initiatives.

The Company expects its effective tax rate for the remainder of 2018 to be approximately 18% - 20%, which is expected to result in a full year effective tax rate of 17% - 19%.

Summary Balance Sheet

(in thousands)	June 30, 2018	December 31, 2017	Increase (decrease)		
Total cash and cash equivalents	\$ 177,257	\$ 153,323	\$ 23,934	15.6	%
Securities	720,071	715,131	4,940	0.7	%
Portfolio loans	4,252,336	4,066,659	185,677	4.6	%
Non-core acquired loans	23,425	30,391	(6,966)	(22.9)	%
Total assets	5,509,924	5,289,225	220,699	4.2	%
Deposits	4,247,912	4,156,414	91,498	2.2	%
Total liabilities	4,935,840	4,740,652	195,188	4.1	%
Total shareholders' equity	574,084	548,573	25,511	4.7	%

Assets

Loans by Type

The Company has a diversified loan portfolio, with no particular concentration of credit in any one economic sector; however, a substantial portion of the portfolio, including the C&I category, is secured by real estate. The ability of the Company's borrowers to honor their contractual obligations is partially dependent upon the local economy and its effect on the real estate market.

The following table summarizes the composition of the Company's loan portfolio:

(in thousands)	June 30, 2018	December 31, 2017	Increase (decrease)		
Commercial and industrial	\$2,038,400	\$ 1,919,145	\$ 119,255	6.2	%
Commercial real estate - investor owned	844,895	769,275	75,620	9.8	%
Commercial real estate - owner occupied	601,086	554,589	46,497	8.4	%
Construction and land development	302,514	345,209	(42,695)	(12.4)	%
Residential real estate	319,208	342,518	(23,310)	(6.8)	%
Consumer and other	146,233	135,923	10,310	7.6	%
Portfolio loans	4,252,336	4,066,659	185,677	4.6	%
Non-core acquired loans	23,425	30,391	(6,966)	(22.9)	%
Total loans	\$4,275,761	\$ 4,097,050	\$ 178,711	4.4	%

Portfolio loans grew by \$185.7 million to \$4.3 billion at June 30, 2018, when compared to December 31, 2017. Non-core acquired loans totaled \$23.4 million at June 30, 2018, a decrease of \$7.0 million, or 23%, from December 31, 2017, primarily as a result of principal paydowns and accelerated loan payoffs.

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

(in thousands)	At the quarter ended		Increase (decrease)		
	June 30, 2018	December 31, 2017			
C&I - general	\$990,153	\$ 936,588	\$ 53,565	5.7	%
CRE investor owned - general	836,516	801,156	35,360	4.4	%
CRE owner occupied - general	493,589	468,151	25,438	5.4	%
Enterprise value lending ¹	442,877	407,644	35,233	8.6	%
Life insurance premium financing ¹	358,787	364,876	(6,089)	(1.7)	%
Residential real estate - general	318,841	342,140	(23,299)	(6.8)	%
Construction and land development - general	286,482	294,123	(7,641)	(2.6)	%
Tax credits ¹	260,595	234,835	25,760	11.0	%
Agriculture loans ¹	127,849	91,031	36,818	40.4	%
Consumer and other - general	136,647	126,115	10,532	8.4	%
Portfolio loans	\$4,252,336	\$ 4,066,659	\$ 185,677	4.6	%

Note: Certain prior period amounts have been reclassified among the categories to conform to the current period presentation.

¹Specialized categories may include a mix of C&I, CRE, construction and land development, or consumer and other loans.

Specialized lending products, especially Enterprise value lending, life insurance premium financing, and tax credits, consist of primarily C&I loans, and have contributed significantly to the Company's loan growth. These loans are sourced through relationships developed with estate planning firms and private equity funds, and are not bound geographically by our traditional three markets. These specialized loan products offer opportunities to expand and diversify geographically by entering into new markets. The Company continues to focus on originating high-quality C&I relationships as they typically have variable interest rates and allow for cross selling opportunities involving other banking products. C&I loans increased \$119 million during the first six months of 2018 and represented 48% of the Company's loan portfolio at June 30, 2018. Given performance through June 30, 2018, we expect total 2018 portfolio loan growth to be a high single digit percentage.

Provision and Allowance for Loan Losses

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

(in thousands)	Three months ended June 30,		Six months ended June 30,		
	2018	2017	2018	2017	
Allowance at beginning of period, for portfolio loans	\$40,263	\$39,148	\$38,166	\$37,565	
Loans charged off:					
Commercial and industrial	(956)	(6,035)	(1,688)	(6,168)	
Real estate:					
Commercial	—	(45)	—	(45)	
Construction and land development	—	(5)	—	(5)	
Residential	(38)	(265)	(292)	(274)	
Consumer and other	(33)	(39)	(82)	(68)	
Total loans charged off	(1,027)	(6,389)	(2,062)	(6,560)	
Recoveries of loans previously charged off:					
Commercial and industrial	118	57	1,074	137	
Real estate:					
Commercial	13	103	25	201	
Construction and land development	168	49	374	58	
Residential	59	62	132	87	
Consumer and other	28	20	42	29	
Total recoveries of loans	386	291	1,647	512	
Net loan charge-offs	(641)	(6,098)	(415)	(6,048)	
Provision for loan losses	2,385	3,623	4,256	5,156	
Allowance at end of period, for portfolio loans (1)	\$42,007	\$36,673	\$42,007	\$36,673	
Allowance at beginning of period, for purchased credit impaired loans	\$4,387	\$5,477	\$4,411	\$5,844	
Loans charged off	—	(48)	—	(48)	
Recoveries of loans	—	—	—	—	
Other	(29)	(96)	(53)	(315)	
Net loan charge-offs	(29)	(144)	(53)	(363)	
Provision reversal for purchased credit impaired loan losses	(1,995)	(207)	(1,995)	(355)	
Allowance at end of period, for purchased credit impaired loans	\$2,363	\$5,126	\$2,363	\$5,126	
Total allowance at end of period	\$44,370	\$41,799	\$44,370	\$41,799	
Portfolio loans, average	\$4,196,875	\$3,839,266	\$4,152,882	\$3,673,012	
Portfolio loans, ending (1)	4,214,996	3,810,470	4,214,996	3,810,470	
Net charge-offs to average portfolio loans (1)	0.06	% 0.64	% 0.01	% 0.33	%
Allowance for portfolio loan losses to loans (1)	1.00	% 0.96	% 1.00	% 0.96	%

(1) Excludes PCI loans.

The provision for loan losses on portfolio loans for the six months ended June 30, 2018 was \$4.3 million, compared to \$5.2 million for same period in 2017. The provision is reflective of growth in portfolio loan balances, and maintaining a prudent credit risk posture.

The allowance for loan losses on portfolio loans was 1.00% of portfolio loans at June 30, 2018 compared to 0.96% at June 30, 2017. Management believes the allowance for loan losses is adequate to absorb inherent losses in the loan portfolio.

Nonperforming assets

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

(in thousands)	June 30, 2018	December 31, 2017	June 30, 2017		
Non-accrual loans	\$ 14,168	\$ 14,968	\$ 12,405		
Restructured loans	633	719	676		
Total nonperforming loans (1)	14,801	15,687	13,081		
Other real estate	454	498	529		
Total nonperforming assets (1)	\$ 15,255	\$ 16,185	\$ 13,610		
Total assets	\$ 5,509,924	\$ 5,289,225	\$ 5,038,696		
Portfolio loans (1)	4,214,996	4,022,896	3,810,470		
Portfolio loans plus other real estate (1)	4,215,450	4,023,394	3,810,999		
Nonperforming loans to portfolio loans (1)	0.35	% 0.39	% 0.34	%	%
Nonperforming assets to total loans plus other real estate (1)	0.36	0.40	0.36		
Nonperforming assets to total assets (1)	0.28	0.31	0.27		
Allowance for loans to nonperforming loans (1)	284	% 243	% 280	%	%

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

Nonperforming loans

Nonperforming loans exclude PCI loans that are accounted for on a pool basis, as the pools are considered to be performing. See Item 1, Note 4 – Loans for more information on these loans.

Nonperforming loans based on loan type were as follows:

(in thousands)	June 30, 2018	December 31, 2017	June 30, 2017
Commercial and industrial	\$11,227	\$12,665	\$10,003
Commercial real estate	1,153	909	287
Construction and land development	435	136	1,489
Residential real estate	1,669	1,602	1,293
Consumer and other	317	375	9
Total	\$14,801	\$15,687	\$13,081

The following table summarizes the changes in nonperforming loans:

(in thousands)	Six months ended June 30,	
	2018	2017
Nonperforming loans beginning of period	\$15,687	\$14,905
Additions to nonaccrual loans	2,176	6,111
Additions to restructured loans	10	676
Charge-offs	(1,997)	(6,508)
Other principal reductions	(1,075)	(1,820)
Moved to other real estate	—	(283)
Nonperforming loans end of period	\$14,801	\$13,081

Other real estate

Other real estate was \$0.5 million at June 30, 2018 and 2017.

The following table summarizes the changes in other real estate:

(in thousands)	Six months ended June 30,	
	2018	2017
Other real estate beginning of period	\$498	\$980
Additions and expenses capitalized to prepare property for sale	—	383
Additions from acquisition	—	1,680
Writedowns in value	(44)	(18)
Other real estate end of period	\$454	\$529

Writedowns in fair value are recorded in loan legal and other real estate expense based on current market activity shown in the appraisals.

Liabilities

Liabilities totaled \$4.9 billion at June 30, 2018, compared to \$4.7 billion at December 31, 2017. The increase in liabilities was due to \$91 million of growth in total deposits and a \$189 million increase in Federal Home Loan Bank advances, partially offset by a decrease of \$86 million in other borrowings.

Deposits

(in thousands)	June 30, 2018	December 31, 2017	Increase (decrease)	
Demand deposits	\$1,050,969	\$1,123,907	\$(72,938)	(6.5)%
Interest-bearing transaction accounts	754,819	915,653	(160,834)	(17.6)%
Money market accounts	1,558,923	1,342,931	215,992	16.1%
Savings	209,870	195,150	14,720	7.5%
Certificates of deposit:				
Brokered	224,192	115,306	108,886	94.4%
Other	449,139	463,467	(14,328)	(3.1)%
Total deposits	\$4,247,912	\$4,156,414	\$91,498	2.2%
Non-time deposits / total deposits	84	% 86		%
Demand deposits / total deposits	25	% 27		%

Total deposits at June 30, 2018 were \$4.2 billion, an increase of 2%, from December 31, 2017, primarily from increases in money market accounts and brokered certificates of deposit. The composition of our noninterest bearing deposits remained relatively stable at 25% of total deposits at June 30, 2018 compared to 27% at December 31, 2017.

Shareholders' Equity

Shareholders' equity totaled \$574.1 million at June 30, 2018, an increase of \$25.5 million from December 31, 2017. Significant activity during the six months ended June 30, 2018 was as follows:

- Net income of \$43.2 million,
- decrease in fair value of securities of \$7.9 million,
- issuance under equity compensation plans of \$3.2 million,
- dividends paid on common shares of \$5.1 million, and
- repurchase of 64,915 shares at an average price of \$47.10 per share, or approximately \$3.1 million in the aggregate, pursuant to the publicly announced program.

Liquidity and Capital Resources

Liquidity

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

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

The Bank's Asset-Liability Management Committee oversees our liquidity position, the parameters of which are approved by the Bank's Board of Directors. Our liquidity position is monitored monthly by producing a liquidity

report, which measures the amount of liquid versus non-liquid assets and liabilities. Our liquidity management framework includes measurement of several key elements, such as the loan to deposit ratio, a liquidity ratio, and a dependency

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ratio. The Company's liquidity framework also incorporates contingency planning to assess the nature and volatility of funding sources and to determine alternatives to these sources. While core deposits and loan and investment repayments are principal sources of liquidity, funding diversification is another key element of liquidity management and is achieved by strategically varying depositor types, terms, funding markets, and instruments.

Parent Company liquidity

The parent company's liquidity is managed to provide the funds necessary to pay dividends to shareholders, service debt, invest in subsidiaries as necessary, and satisfy other operating requirements. The parent company's primary funding sources to meet its liquidity requirements are dividends and payments from the Bank and proceeds from the issuance of equity (i.e. stock option exercises, stock offerings). \$15 million in dividends was paid to the parent company from the Bank in 2018. Another source of funding for the parent company includes the issuance of subordinated debentures and other debt instruments.

The Company has an effective shelf registration statement on Form S-3 registering up to \$100 million of common stock, preferred stock, debt securities, and various other securities, including combinations of such securities. The Company's ability to offer securities pursuant to the registration statement depends on market conditions and the Company's continuing eligibility to use the Form S-3 under rules of the SEC.

On November 1, 2016, the Company issued \$50 million aggregate principal amount of 4.75% fixed-to-floating rate subordinated notes with a maturity date of November 1, 2026, which initially bear an annual interest rate of 4.75%, with interest payable semiannually. Beginning November 1, 2021, the interest rate resets quarterly to the three-month LIBOR rate plus a spread of 338.7 basis points, payable quarterly.

The Company has a senior unsecured revolving credit agreement (the "Revolving Agreement") with another bank allowing for borrowings up to \$20 million which is renewed through February 2019. The proceeds can be used for general corporate purposes. The Revolving Agreement is subject to ongoing compliance with a number of customary affirmative and negative covenants as well as specified financial covenants. As of June 30, 2018, there were no outstanding balances under the Revolving Agreement.

As of June 30, 2018, the Company had \$69.2 million of outstanding subordinated debentures as part of ten Trust Preferred Securities Pools. These securities are classified as debt but are included in regulatory capital and the related interest expense is tax-deductible, which makes them an attractive source of funding.

Management believes our current level of cash at the holding company of \$13.6 million, along with the Company's other available funding sources, will be sufficient to meet all projected cash needs for the remainder of 2018.

Bank liquidity

The Bank has a variety of funding sources available to increase financial flexibility. In addition to amounts currently borrowed, at June 30, 2018, the Bank had borrowing capacity of \$313.0 million from the FHLB of Des Moines under blanket loan pledges, and has an additional \$1.0 billion available from the Federal Reserve Bank under a pledged loan agreement. The Bank has unsecured federal funds lines with six correspondent banks totaling \$95.0 million, and \$79.0 million of unsecured credit through the American Financial Exchange.

Investment securities are another important tool to the Bank's liquidity objectives. Total securities available for sale of \$651.1 million at June 30, 2018, included \$360.7 million of securities that were pledged as collateral for deposits of public institutions, treasury, loan notes, and other requirements. The remaining \$290.4 million could be pledged or sold to enhance liquidity, if necessary. In addition, \$51.7 million of unpledged held to maturity securities could also be pledged for liquidity purposes.

In the normal course of business, the Bank enters into certain forms of off-balance sheet transactions, including unfunded loan commitments and letters of credit. These transactions are managed through the Bank's various risk management processes. Management considers both on-balance sheet and off-balance sheet transactions in its evaluation of the Company's liquidity. The Bank has \$1.3 billion in unused commitments as of June 30, 2018. While this commitment

level would exhaust the majority of the Company's current liquidity resources, the nature of these commitments is such that the likelihood of funding them in the aggregate at any one time is low.

Capital Resources

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

Quantitative measures established by regulation to ensure capital adequacy require the Company and the Bank to maintain minimum amounts and ratios (set forth in the following table) of total, Tier 1, and common equity tier 1 capital to risk-weighted assets, and of Tier 1 capital to average assets. To be categorized as "well capitalized", banks must maintain minimum total risk-based (10%), Tier 1 risk-based (8%), common equity tier 1 risk-based (6.5%), and Tier 1 leverage ratios (5%). As of June 30, 2018, and December 31, 2017, the Company and the Bank met all capital adequacy requirements to which they are subject.

The Bank continues to exceed regulatory standards and met the definition of "well-capitalized" (the highest category) at June 30, 2018. The Company adopted the Regulatory Capital Framework (Basel III) in 2015, and has implemented the necessary processes and procedures to comply.

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

(in thousands)	June 30, 2018	December 31, 2017	Well Capitalized Minimum %		
Total capital to risk-weighted assets	12.60	% 12.21	% 10.00	%	
Tier 1 capital to risk-weighted assets	10.68	% 10.29	% 8.00	%	
Common equity tier 1 capital to risk-weighted assets	9.32	% 8.88	% 6.50	%	
Leverage ratio (Tier 1 capital to average assets)	9.99	% 9.72	% 5.00	%	
Tangible common equity to tangible assets ¹	8.30	% 8.14	% N/A		
Tier 1 capital	\$529,624	\$496,045			
Total risk-based capital	624,419	589,047			

¹ Not a required regulatory capital ratio

The Company believes the tangible common equity ratio and the common equity tier 1 capital ratio are important measures of capital strength even though they are considered to be non-GAAP measures. A reconciliation has been included in this MD&A section under the caption "Use of Non-GAAP Financial Measures."

Use of Non-GAAP Financial Measures:

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

Generally, a non-GAAP financial measure is a numerical measure of a company's financial performance, financial position, or cash flows that exclude (or include) amounts that are included in (or excluded from) the most directly comparable measure calculated and presented in accordance with GAAP.

The Company considers its core performance measures presented in this report and the included tables as important measures of financial performance, even though they are non-GAAP measures, as they provide supplemental information by which to evaluate the impact of non-core acquired loans and related income and expenses, the impact of certain non-comparable items, and the Company's operating performance on an ongoing basis. Core performance measures include contractual interest on non-core acquired loans, but exclude incremental accretion on these loans. Core performance measures also exclude the gain or loss on sale of other real estate from non-core acquired loans, deferred tax asset revaluation due to U.S. corporate income tax reform, and expenses directly related to non-core acquired loans and other assets formerly covered under FDIC loss share agreements. Core performance measures also exclude certain other income and expense items, such as executive separation costs, merger related expenses, facilities disposal and the gain or loss on sale of investment securities, the Company believes to be not indicative of or useful to measure the Company's operating performance on an ongoing basis. The Company believes that the tangible common equity ratio provides useful information to investors about the Company's capital strength even though it is considered to be a non-GAAP financial measure and is not part of the regulatory capital requirements to which the Company is subject.

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

Core Performance Measures

(in thousands)	For the Three Months ended			For the Six Months ended	
	June 30, 2018	March 31, 2018	June 30, 2017	June 30, 2018	June 30, 2017
Net interest income	\$47,048	\$46,171	\$45,633	\$93,219	\$84,275
Less: Incremental accretion income	291	766	2,584	1,057	3,659
Core net interest income	46,757	45,405	43,049	92,162	80,616
Total noninterest income	9,693	9,542	7,934	19,235	14,910
Less: Gain on sale of investment securities	—	9	—	9	—
Less: Other income from non-core acquired assets	18	1,013	—	1,031	—
Less: Other non-core income	649	—	—	649	—
Core noninterest income	9,026	8,520	7,934	17,546	14,910
Total core revenue	55,783	53,925	50,983	109,708	95,526
Provision for portfolio loans	2,385	1,871	3,623	4,256	5,156
Total noninterest expense	29,219	29,143	32,651	58,362	59,387
Less: Other expenses related to non-core acquired loans	(229)	14	(16)	(215)	107
Less: Merger related expenses	—	—	4,480	—	6,147
Less: Facilities disposal charge	239	—	389	239	389
Core noninterest expense	29,209	29,129	27,798	58,338	52,744
Core income before income tax expense	24,189	22,925	19,562	47,114	37,626
Total income tax expense	4,881	3,778	5,545	8,659	10,651
Less: Other non-core income tax expense ¹	736	438	(784)	1,174	(594)
Core income tax expense	4,145	3,340	6,329	7,485	11,245
Core net income	\$20,044	\$19,585	\$13,233	\$39,629	\$26,381
Core diluted earnings per share	\$0.86	\$0.84	\$0.56	\$1.70	\$1.15
Core return on average assets	1.48 %	1.49 %	1.06 %	1.49 %	1.11 %
Core return on average common equity	14.14 %	14.34 %	9.72 %	14.24 %	10.44 %
Core return on average tangible common equity	18.22 %	18.64 %	12.72 %	18.43 %	13.22 %
Core efficiency ratio	52.36 %	54.02 %	54.52 %	53.18 %	55.21 %

¹Other non-core income tax expense calculated at 24.7% of non-core pretax income for 2018. For 2017, the calculation is 38.0% of non-core pretax income plus an estimate of taxes payable related to non-deductible JCB acquisition costs.

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

(in thousands)	Three months ended June 30,		Six months ended June 30,		
	2018	2017	2018	2017	
Net interest income	\$47,254	\$46,096	\$93,640	\$85,243	
Less: Incremental accretion income	291	2,584	1,057	3,659	
Core net interest income	\$46,963	\$43,512	\$92,583	\$81,584	
Average earning assets	\$5,023,607	\$4,641,198	\$4,986,447	\$4,451,253	
Reported net interest margin	3.77	% 3.98	% 3.79	% 3.86	%
Core net interest margin	3.75	% 3.76	% 3.74	% 3.70	%

Tangible common equity ratio

(in thousands)	June 30, 2018	December 31, 2017	
Total shareholders' equity	\$574,084	\$548,573	
Less: Goodwill	117,345	117,345	
Less: Intangible assets	9,768	11,056	
Tangible common equity	\$446,971	\$420,172	
Total assets	\$5,509,924	\$5,289,225	
Less: Goodwill	117,345	117,345	
Less: Intangible assets	9,768	11,056	
Tangible assets	\$5,382,811	\$5,160,824	
Tangible common equity to tangible assets	8.30	% 8.14	%

Regulatory Capital to Risk-Weighted Assets

(in thousands)	June 30, 2018	December 31, 2017		
Total shareholders' equity	\$574,084	\$548,573		
Less: Goodwill	117,345	117,345		
Less: Intangible assets, net of deferred tax liabilities	7,355	6,661		
Plus: Unrealized gains (losses)	(12,580)	(3,818)		
Plus: Other	—	12		
Common equity Tier 1 capital	461,964	428,397		
Plus: Qualifying trust preferred securities	67,600	67,600		
Plus: Other	60	48		
Tier 1 capital	529,624	496,045		
Plus: Tier 2 capital	94,795	93,002		
Total risk-based capital	624,419	589,047		
Total risk-weighted assets determined in accordance with prescribed regulatory requirements	\$4,956,820	\$4,822,695		
Common equity tier 1 to risk-weighted assets	9.32	% 8.88		%
Tier 1 capital to risk-weighted assets	10.68	% 10.29		%
Total risk-based capital to risk-weighted assets	12.60	% 12.21		%

Critical Accounting Policies

The impact and any associated risks related to the Company's critical accounting policies on business operations are described throughout "Management's Discussion and Analysis of Financial Condition and Results of Operations," where such policies affect our reported and expected financial results. For a detailed description on the application of these and other accounting policies, see the Company's Annual Report on Form 10-K for the year ended December 31, 2017.

ITEM 3: QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

Interest Rate Risk

Our interest rate risk management practices are aimed at optimizing net interest income, while guarding against deterioration that could be caused by certain interest rate scenarios. Interest rate sensitivity varies with different types of interest-earning assets and interest-bearing liabilities. We attempt to maintain interest-earning assets, comprised primarily of both loans and investments, and interest-bearing liabilities, comprised primarily of deposits, maturing or repricing in similar time horizons in order to minimize or eliminate any impact from market interest rate changes. In order to measure earnings sensitivity to changing rates, the Company uses an earnings simulation model.

The Company determines the sensitivity of its short-term future earnings to a hypothetical plus or minus 100 to 300 basis point parallel rate shock through the use of simulation modeling. The simulation of earnings includes the modeling of the balance sheet as an ongoing entity. Future business assumptions involving administered rate products, prepayments for future rate-sensitive balances, and the reinvestment of maturing assets and liabilities are included. These items are then modeled to project net interest income based on a hypothetical change in interest rates. The resulting net interest income for the next 12-month period is compared to the net interest income amount calculated using flat rates. This difference represents the Company's earnings sensitivity to a plus or minus 100 basis points parallel rate shock.

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

Rate Shock	Annual % change in net interest income
+ 300 bp	4.9%
+ 200 bp	3.4%
+ 100 bp	1.7%
- 100 bp	(3.9)%

In addition to the rate shocks shown in the table above, the Company models net interest income under various dynamic interest rate scenarios. Therefore, positive changes in rates result in higher levels of net interest income, while scenarios based on declining rates, particularly those involving decreases in long-term rates, result in reduced net interest income.

The Company occasionally uses interest rate derivative financial instruments as an asset/liability management tool to hedge mismatches in interest rate exposure indicated by the net interest income simulation described above. They are used to modify the Company's exposures to interest rate fluctuations and provide more stable spreads between loan yields and the rate on their funding sources.

ITEM 4: CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Under the supervision and with the participation of the Company's Chief Executive Officer (CEO) and the Chief Financial Officer (CFO), management has evaluated the effectiveness of the design and operation of the Company's disclosure controls and procedures pursuant to Exchange Act Rule 13a-15, as of June 30, 2018. Disclosure controls and procedures include without limitation, controls and procedures designed to ensure that information required to be disclosed by an issuer in the reports that it files or submits under the Securities Exchange Act of 1934, as amended, is accumulated and communicated to the issuer's management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

Based on that evaluation, the CEO and CFO concluded the Company's disclosure controls and procedures were effective as of June 30, 2018 to provide reasonable assurance of the achievement of the objectives described above.

Changes to Internal Controls

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

PART II - OTHER INFORMATION

ITEM 1: LEGAL PROCEEDINGS

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

ITEM 1A: RISK FACTORS

For information regarding risk factors affecting the Company, please see the cautionary language regarding forward-looking statements in the introduction to Item 2 of Part I of this Report on Form 10-Q, and Part I, Item 1A of our Report on Form 10-K for the fiscal year ended December 31, 2017. There have been no material changes to the risk factors described in such Annual Report on Form 10-K.

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

Issuer Purchases of Equity Securities

There were no repurchases of common stock by the Company during the quarter ended June 30, 2018.

ITEM 6: EXHIBITS

Exhibit No. Description

Registrant hereby agrees to furnish to the Commission, upon request, the instruments defining the rights of holders of each issue of long-term debt of Registrant and its consolidated subsidiaries.

*12.1 Computation of Ratio of Earnings to Fixed Charges and Preferred Dividends.

14.0 Enterprise Financial Services Corp Code of Ethics, as amended and restated (incorporated herein by reference to Exhibit 2.1 to Registrant's Current Report on Form 8-K filed on July 2, 2018).

*31.1 Chief Executive Officer's Certification required by Rule 13(a)-14(a).

*31.2 Chief Financial Officer's Certification required by Rule 13(a)-14(a).

**32.1 Chief Executive Officer Certification pursuant to 18 U.S.C. § 1350, as adopted pursuant to section § 906 of the Sarbanes-Oxley Act of 2002.

**32.2 Chief Financial Officer Certification pursuant to 18 U.S.C. § 1350, as adopted pursuant to section § 906 of the Sarbanes-Oxley Act of 2002.

Pursuant to Rule 405 of Regulation S-T, the following financial information from the Company's Quarterly Report on Form 10-Q for the period ended June 30, 2018, is formatted in XBRL interactive data files: (i) Consolidated Balance Sheet at June 30, 2018 and December 31, 2017; (ii) Consolidated Statement of Income for the three and six months ended June 30, 2018 and 2017; (iii) Consolidated Statement of Comprehensive Income for the three and six months ended June 30, 2018 and 2017; (iv) Consolidated Statement of Changes in Equity for the six months ended June 30, 2018 and 2017; (v) Consolidated Statement of Cash Flows for the six months ended June 30, 2018 and 2017; and (vi) Notes to Financial Statements.

* Filed herewith

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

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Clayton, State of Missouri on the day of July 27, 2018.

ENTERPRISE FINANCIAL
SERVICES CORP

By: /s/ James B. Lally
James B. Lally
Chief Executive Officer

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