ENTERPRISE FINANCIAL SERVICES CORP
Form 10-Q
October 31, 2014

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

FORM 10-Q

[X]	Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 For the quarterly period ended September 30, 2014.
[ ]	Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 For the transition period from ______ to ______
	Commission file number 001-15373

ENTERPRISE FINANCIAL SERVICES CORP

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

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

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

Large accelerated filer [ ]	Accelerated filer [X]	Non-accelerated filer [ ] (Do not check if a smaller reporting company)	Smaller reporting company [ ]

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

As of October 29, 2014, the Registrant had 19,785,022 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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(In thousands, except share and per share data)	September 30, 2014	December 31, 2013
Assets		
Cash and due from banks	$54,113	$19,573
Federal funds sold	36	76
Interest-bearing deposits (including $980 and $990 pledged as collateral)	69,663	190,920
Total cash and cash equivalents	123,812	210,569
Interest-bearing deposits greater than 90 days	5,300	5,300
Securities available for sale	456,584	434,587
Loans held for sale	4,899	1,834
Portfolio loans	2,294,905	2,137,313
Less: Allowance for loan losses	28,800	27,289
Portfolio loans, net	2,266,105	2,110,024
Purchase credit impaired loans, net of the allowance for loan losses ($15,544 and $15,438, respectively)	98,318	125,100
Total loans, net	2,364,423	2,235,124
Other real estate not covered under FDIC loss share	2,261	7,576
Other real estate covered under FDIC loss share	8,826	15,676
Other investments, at cost	15,291	12,605
Fixed assets, net	18,054	18,180
Accrued interest receivable	7,526	7,303
State tax credits, held for sale, including $15,131 and $16,491 carried at fair value, respectively	45,631	48,457
FDIC loss share receivable	22,039	34,319
Goodwill	30,334	30,334
Intangible assets, net	4,453	5,418
Other assets	100,157	102,915
Total assets	$3,209,590	$3,170,197
Liabilities and Shareholders' Equity		
Demand deposits	$695,804	$653,686
Interest-bearing transaction accounts	438,205	219,802
Money market accounts	736,840	948,884
Savings	80,521	79,666
Certificates of deposit:		
$100 and over	426,593	475,544
Other	131,801	157,371
Total deposits	2,509,764	2,534,953
Subordinated debentures	56,807	62,581
Federal Home Loan Bank advances	120,000	50,000
Other borrowings	181,122	203,831
Notes payable	6,000	10,500
Accrued interest payable	854	957
Other liabilities	26,289	27,670
Total liabilities	2,900,836	2,890,492
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; 19,861,022 and 19,399,709 shares issued, respectively	199	194
Treasury stock, at cost; 76,000 shares	(1,743)	(1,743)
Additional paid in capital	207,079	200,258
Retained earnings	103,452	85,376
Accumulated other comprehensive loss	(233)	(4,380)
Total shareholders' equity	308,754	279,705
Total liabilities and shareholders' equity	$3,209,590	$3,170,197

See accompanying notes to condensed consolidated financial statements.

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

	Three months ended September 30,		Nine months ended September 30,	
(In thousands, except per share data)	2014	2013	2014	2013
Interest income:				
Interest and fees on loans	$28,395	$34,396	$89,582	$109,330
Interest on debt securities:				
Taxable	2,190	2,043	6,545	6,210
Nontaxable	298	301	896	907
Interest on interest-bearing deposits	43	37	145	130
Dividends on equity securities	110	106	201	277
Total interest income	31,036	36,883	97,369	116,854
Interest expense:				
Interest-bearing transaction accounts	163	99	385	360
Money market accounts	653	714	2,095	2,348
Savings	52	56	151	171
Certificates of deposit:				
$100 and over	1,335	1,326	3,997	4,207
Other	406	439	1,249	1,385
Subordinated debentures	306	679	1,016	2,580
Federal Home Loan Bank advances	490	757	1,345	2,221
Notes payable and other borrowings	187	239	579	801
Total interest expense	3,592	4,309	10,817	14,073
Net interest income	27,444	32,574	86,552	102,781
Provision for portfolio loan losses	66	(652)	2,441	(3,094)
Provision for purchase credit impaired loan losses	(1,877)	2,811	957	2,789
Net interest income after provision for loan losses	29,255	30,415	83,154	103,086
Noninterest income:				
Wealth Management revenue	1,754	1,698	5,191	5,419
Service charges on deposit accounts	1,812	1,768	5,317	5,025
Other service charges and fee income	849	722	2,188	2,030
Gain on sale of other real estate	114	472	1,514	1,562
Gain on state tax credits, net	156	308	860	1,214
Gain on sale of investment securities	—	611	—	1,295
Change in FDIC loss share receivable	(2,374)	(2,849)	(7,526)	(13,647)
Miscellaneous income	2,141	986	4,235	2,055
Total noninterest income	4,452	3,716	11,779	4,953
Noninterest expense:				
Employee compensation and benefits	11,913	10,777	35,882	33,006
Occupancy	1,683	1,689	4,998	5,298
Data processing	1,045	1,143	3,296	3,000
FDIC and other insurance	710	900	2,170	2,592
Loan legal and other real estate expense	811	1,247	2,985	3,355
Professional fees	710	1,041	2,569	3,394
FDIC clawback	1,028	62	1,060	815
Other	3,221	4,149	9,708	10,979
Total noninterest expense	21,121	21,008	62,668	62,439

Income before income tax expense	12,586	13,123	32,265	45,600
Income tax expense	4,388	4,713	11,059	16,117
Net income	$8,198	$8,410	$21,206	$29,483
Earnings per common share				
Basic	$0.41	$0.45	$1.07	$1.61
Diluted	0.41	0.44	1.07	1.55

See accompanying notes to condensed consolidated financial statements.

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

	Three months ended September 30,		Nine months ended September 30,	
(in thousands)	2014	2013	2014	2013
Net income	$8,198	$8,410	$21,206	$29,483
Other comprehensive income (loss), net of tax:				
Unrealized gain/(loss) on investment securities available for sale arising during the period, net of income tax expense/(benefit) for three months of $(505), and $598, and for nine months of $2,574 and ($5,716), respectively.	(812)	939	4,147	(8,981)
Less reclassification adjustment for realized gains on sale of securities available for sale included in net income, net of income tax expense for three months of $0, and $238, and for the nine months of $0, and $505, respectively.	—	(373)	—	(790)
Total other comprehensive income (loss)	(812)	566	4,147	(9,771)
Total comprehensive income	$7,386	$8,976	$25,353	$19,712

See accompanying notes to condensed consolidated financial statements.

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

(in thousands, except per share data)	Preferred Stock	Common Stock	Treasury Stock	Additional paid in capital	Retained earnings	Accumulated other comprehensive income (loss)	Total shareholders' equity
Balance January 1, 2014	$—	$ 194	$(1,743)	$200,258	$85,376	$ (4,380)	$ 279,705
Net income	—	—	—	—	21,206	—	21,206
Other comprehensive income	—	—	—	—	—	4,147	4,147
Cash dividends paid on common shares, $0.105 per share	—	—	—	—	(3,130)	—	(3,130)
Issuance under equity compensation plans, 173,461 shares	—	2	—	(484)	—	—	(482)
Trust preferred securities conversion 287,852 shares	—	3	—	4,999	—	—	5,002
Share-based compensation	—	—	—	2,205	—	—	2,205
Excess tax benefit related to equity compensation plans	—	—	—	101	—	—	101
Balance September 30, 2014	$—	$ 199	$(1,743)	$207,079	$103,452	$ (233)	$ 308,754

(in thousands, except per share data)	Preferred Stock	Common Stock	Treasury Stock	Additional paid in capital	Retained earnings	Accumulated other comprehensive income (loss)	Total shareholders' equity
Balance January 1, 2013	$—	$ 181	$(1,743)	$173,299	$56,218	$ 7,790	$ 235,745
Net income	—	—	—	—	29,483	—	29,483
Other comprehensive loss	—	—	—	—	—	(9,771)	(9,771)
Cash dividends paid on common shares, $0.1575 per share	—	—	—	—	(2,924)	—	(2,924)
Repurchase of common stock warrants	—	—	—	(1,006)	—	—	(1,006)
Issuance under equity compensation plans, 87,743 shares	—	1	—	2,550	—	—	2,551
Trust preferred securities conversion, 1,176,470 shares	—	12	—	20,431	—	—	20,443
Share-based compensation	—	—	—	3,136	—	—	3,136
Excess tax benefit related to equity compensation plans	—	—	—	83	—	—	83
Balance September 30, 2013	$—	$ 194	$(1,743)	$198,493	$82,777	$ (1,981)	$ 277,740

See accompanying notes to condensed consolidated financial statements.

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

(in thousands)	Nine months ended September 30, 2014	2013
Cash flows from operating activities:		
Net income	$21,206	$29,483
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	1,681	1,936
Provision for loan losses	3,398	(305)
Deferred income taxes	6,458	180
Net amortization of debt securities	2,885	4,579
Amortization of intangible assets	965	1,540
Gain on sale of investment securities	—	(1,295)
Mortgage loans originated for sale	(52,475)	(64,463)
Proceeds from mortgage loans sold	49,811	70,884
Gain on sale of other real estate	(1,514)	(1,562)
Gain on state tax credits, net	(860)	(1,214)
Excess tax benefit of share-based compensation	(101)	—
Share-based compensation	2,205	3,136
Valuation adjustment on other real estate	618	962
Net accretion of loan discount and indemnification asset	731	(13,853)
Changes in:		
Accrued interest receivable	(223)	600
Accrued interest payable	(103)	(397)
Prepaid FDIC insurance	—	2,607
Other assets	(2,984)	(21,322)
Other liabilities	(1,381)	516
Net cash provided by operating activities	30,317	12,012
Cash flows from investing activities:		
Net (increase) decrease in loans	(133,782)	36,955
Net cash proceeds received from FDIC loss share receivable	6,487	9,654
Proceeds from the sale of debt and equity securities, available for sale	—	159,604
Proceeds from the maturity of debt and equity securities, available for sale	35,503	69,017
Proceeds from the redemption of other investments	18,637	26,695
Proceeds from the sale of state tax credits held for sale	4,099	8,126
Proceeds from the sale of other real estate	14,435	15,303
Payments for the purchase/origination of:		
Available for sale debt and equity securities	(53,664)	(60,732)
Other investments	(21,324)	(28,143)
Bank owned life insurance	—	(20,000)
State tax credits held for sale	—	(1,365)
Fixed assets	(1,556)	(1,122)
Net cash (used in) provided by investing activities	(131,165)	213,992
Cash flows from financing activities:		
Net increase/(decrease) in noninterest-bearing deposit accounts	42,118	(67,242)
Net decrease in interest-bearing deposit accounts	(67,307)	(143,691)
Proceeds from Federal Home Loan Bank advances	799,600	743,000
Repayments of Federal Home Loan Bank advances	(729,600)	(703,000)
Repayments of notes payable	(4,500)	(900)

Repayments of subordinated debentures	—	(2,000)
Net decrease in other borrowings	(22,709)	(66,005)
Cash dividends paid on common stock	(3,130)	(2,924)
Excess tax benefit of share-based compensation	101	83
Payments for the repurchase of common stock warrants	—	(1,006)
Employee stock issuances, net	(482)	2,551
Net cash provided by (used in) financing activities	14,091	(241,134)
Net decrease in cash and cash equivalents	(86,757)	(15,130)
Cash and cash equivalents, beginning of period	210,569	116,370
Cash and cash equivalents, end of period	$123,812	$101,240
Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Interest	$10,920	$14,470
Income taxes	8,998	24,348
Noncash transactions:		
Transfer to other real estate owned in settlement of loans	7,468	21,116
Sales of other real estate financed	5,102	5,564
Issuance of common stock from Trust Preferred Securities conversion	5,002	20,443

See accompanying notes to condensed consolidated financial statements.

ENTERPRISE FINANCIAL SERVICES CORP AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements (Unaudited)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Business and Consolidation

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

Operating results for the three and nine months ended September 30, 2014 are not necessarily indicative of the results that may be expected for any other interim period or for the year ending December 31, 2014. For further information, refer to the consolidated financial statements and footnotes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2013.

Basis of Financial Statement Presentation

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

NOTE 2 - EARNINGS PER SHARE

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

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

	Three months ended September 30,		Nine months ended September 30,	
(in thousands, except per share data)	2014	2013	2014	2013
Net income as reported	$8,198	$8,410	$21,206	$29,483
Impact of assumed conversions				
Interest on 9% convertible trust preferred securities, net of income tax	—	217	66	926
Net income available to common shareholders and assumed conversions	$8,198	$8,627	$21,272	$30,409
Weighted average common shares outstanding	19,838	18,779	19,729	18,288
Incremental shares from assumed conversions of convertible trust preferred securities	—	851	76	1,241
Additional dilutive common stock equivalents	142	200	165	153
Weighted average diluted common shares outstanding	19,980	19,830	19,970	19,682
Basic earnings per common share:	$0.41	$0.45	$1.07	$1.61
Diluted earnings per common share:	$0.41	$0.44	$1.07	$1.55

For the three months ended September 30, 2014 and 2013, the amount of common stock equivalents excluded from the earnings per share calculations because their effect was anti-dilutive was 289,286, and 474,267 common stock equivalents, respectively. For the nine months ended September 30, 2014 and 2013, the amount of common stock equivalents excluded from the earnings per share calculations because their effect was anti-dilutive was 289,407, and 488,318 common stock equivalents (including 9,497 common stock warrants), respectively.

NOTE 3 - INVESTMENTS

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

(in thousands)	September 30, 2014 Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for sale securities:				
Obligations of U.S. Government-sponsored enterprises	$91,823	$638	$(189)	$92,272
Obligations of states and political subdivisions	49,064	1,576	(699)	49,941
Agency mortgage-backed securities	315,951	3,099	(4,679)	314,371
	$456,838	$5,313	$(5,567)	$456,584

(in thousands)	December 31, 2013 Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for sale securities:				
Obligations of U.S. Government-sponsored enterprises	$93,218	$700	$(388)	$93,530
Obligations of states and political subdivisions	49,721	983	(1,761)	48,943
Agency mortgage-backed securities	298,623	2,675	(9,184)	292,114
	$441,562	$4,358	$(11,333)	$434,587

At September 30, 2014, and December 31, 2013, there were no holdings of securities of any one issuer in an amount greater than 10% of shareholders’ equity, other than the U.S. government agencies and sponsored enterprises. The residential mortgage-backed securities are all issued by U.S. government sponsored enterprises. Available for sale securities having a fair value of $255.9 million and $270.1 million at September 30, 2014, and December 31, 2013, respectively, were pledged as collateral to secure deposits of public institutions and for other purposes as required by law or contract provisions.

The amortized cost and estimated fair value of debt securities classified as available for sale at September 30, 2014, by contractual maturity, are shown below. Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties. The weighted average life of the mortgage-backed securities is approximately 5 years.

(in thousands)	Amortized Cost	Estimated Fair Value
Due in one year or less	$3,181	$3,227
Due after one year through five years	109,044	110,116
Due after five years through ten years	21,833	22,352
Due after ten years	6,829	6,518
Mortgage-backed securities	315,951	314,371
	$456,838	$456,584

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

	September 30, 2014					
	Less than 12 months		12 months or more		Total	
(in thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Obligations of U.S. Government-sponsored enterprises	$5,454	$7	$24,813	$182	$30,267	$189
Obligations of states and political subdivisions	$1,092	$18	$14,143	$681	$15,235	$699
Agency mortgage-backed securities	29,404	139	136,333	4,540	165,737	4,679
	$35,950	$164	$175,289	$5,403	$211,239	$5,567

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

The unrealized losses at both September 30, 2014, and December 31, 2013, were primarily attributable to changes in market interest rates since the securities were purchased. Management systematically evaluates investment securities for other-than-temporary declines in fair value on a quarterly basis. This analysis requires management to consider various factors, which include (1) the present value of the cash flows expected to be collected compared to the amortized cost of the security, (2) duration and magnitude of the decline in value, (3) the financial condition of the issuer or issuers, (4) structure of the security and (5) the intent to sell the security or whether it is more likely than not that the Company would be required to sell the security before its anticipated recovery in market value. At September 30, 2014, management performed its quarterly analysis of all securities with an unrealized loss and concluded no individual securities were other-than-temporarily impaired.

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

	Three months ended September 30,		Nine months ended September 30,	
(in thousands)	2014	2013	2014	2013
Gross gains realized	$—	$611	$—	$1,477
Gross losses realized	—	—	—	(182)
Proceeds from sales	—	36,710	—	159,604

NOTE 4 - PORTFOLIO LOANS

Below is a summary of Portfolio loans by category at September 30, 2014, and December 31, 2013:

(in thousands)	September 30, 2014	December 31, 2013
Real Estate Loans:		
Construction and land development	$123,888	$117,032
Commercial real estate - Investor owned	391,791	437,688
Commercial real estate - Owner occupied	366,724	341,631
Residential real estate	187,594	158,527
Total real estate loans	$1,069,997	$1,054,878
Commercial and industrial	1,172,015	1,041,576
Consumer and other	51,816	39,838
Portfolio loans	$2,293,828	$2,136,292
Unearned loan costs, net	1,077	1,021
Portfolio loans, including unearned loan costs	$2,294,905	$2,137,313

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

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A summary of the year-to-date activity in the allowance for loan losses and the recorded investment in Portfolio loans by class and category based on impairment method through September 30, 2014, and at December 31, 2013, is as follows:

(in thousands)	Commercial & Industrial	Commercial Real Estate Owner Occupied	Commercial Real Estate Investor Owned	Construction and Land Development	Residential Real Estate	Consumer & Other	Total
Allowance for Loan Losses:							
Balance at December 31, 2013	$12,246	$4,096	$6,600	$ 2,136	$2,019	$192	$27,289
Provision charged to expense	899	589	(9)	(532)	16	64	1,027
Losses charged off	(474)	(336)	(250)	(305)	—	(4)	(1,369)
Recoveries	187	8	34	688	41	—	958
Balance at March 31, 2014	$12,858	$4,357	$6,375	$ 1,987	$2,076	$252	$27,905
Provision charged to expense	3,068	(262)	(2,064)	132	412	62	1,348
Losses charged off	(1,005)	(88)	—	—	—	—	(1,093)
Recoveries	154	14	19	36	39	—	262
Balance at June 30, 2014	$15,075	$4,021	$4,330	$ 2,155	$2,527	$314	$28,422
Provision charged to expense	169	(245)	(101)	321	(110)	32	66
Losses charged off	(215)	(50)	—	(600)	—	—	(865)
Recoveries	880	8	23	35	230	1	1,177
Balance at September 30, 2014	$15,909	$3,734	$4,252	$ 1,911	$2,647	$347	$28,800

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(in thousands)	Commercial & Industrial	Commercial Real Estate Owner Occupied	Commercial Real Estate Investor Owned	Construction and Land Development	Residential Real Estate	Consumer & Other	Total
Balance September 30, 2014							
Allowance for Loan Losses - Ending Balance:							
Individually evaluated for impairment	$404	$293	$—	$ 364	$17	$—	$1,078
Collectively evaluated for impairment	15,505	3,441	4,252	1,547	2,630	347	27,722
Total	$15,909	$3,734	$4,252	$ 1,911	$2,647	$347	$28,800
Loans - Ending Balance:							
Individually evaluated for impairment	$3,198	$4,820	$5,164	$ 6,455	$386	$—	$20,023
Collectively evaluated for impairment	1,168,817	361,904	386,627	117,433	187,208	52,893	2,274,882
Total	$1,172,015	$366,724	$391,791	$ 123,888	$187,594	$52,893	$2,294,905
Balance at December 31, 2013							
Allowance for Loan Losses - Ending Balance:							
Individually evaluated for impairment	$736	$107	$—	$ 703	$4	$—	$1,550
Collectively evaluated for impairment	11,510	3,989	6,600	1,433	2,015	192	25,739
Total	$12,246	$4,096	$6,600	$ 2,136	$2,019	$192	$27,289
Loans - Ending Balance:							
Individually evaluated for impairment	$3,380	$606	$6,811	$ 9,484	$559	$—	$20,840
Collectively evaluated for impairment	1,038,196	341,025	430,877	107,548	157,968	40,859	2,116,473
Total	$1,041,576	$341,631	$437,688	$ 117,032	$158,527	$40,859	$2,137,313

A summary of Portfolio loans individually evaluated for impairment by category at September 30, 2014, and December 31, 2013, is as follows:

(in thousands)	September 30, 2014 Unpaid Contractual Principal Balance	Recorded Investment With No Allowance	Recorded Investment With Allowance	Total Recorded Investment	Related Allowance	Average Recorded Investment
Commercial & Industrial	$4,512	$3,198	$—	$3,198	$404	$4,037
Real Estate:						
Commercial - Owner Occupied	4,876	773	1,891	2,664	293	1,388
Commercial - Investor Owned	5,164	—	5,164	5,164	—	4,138
Construction and Land Development	7,550	430	6,026	6,456	364	7,565
Residential	386	200	185	385	17	495
Consumer & Other	—	—	—	—	—	519
Total	$22,488	$4,601	$13,266	$17,867	$1,078	$18,142

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

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

(in thousands)	September 30, 2014 Three months ended	Nine months ended	September 30, 2013 Three months ended	Nine months ended
Total interest income that would have been recognized under original terms	$246	$927	$410	$1,454
Total cash received and recognized as interest income on non-accrual loans	51	83	4	28
Total interest income recognized on impaired loans	11	27	4	33

There was one loan for $0.3 million over 90 days past due and still accruing interest at September 30, 2014. At September 30, 2014, there were no unadvanced commitments on impaired loans.

The recorded investment in impaired Portfolio loans by category at September 30, 2014, and December 31, 2013, is as follows:

	September 30, 2014			
(in thousands)	Non-accrual	Restructured	Loans over 90 days past due and still accruing interest	Total
Commercial & Industrial	$3,221	$—	$340	$3,561
Real Estate:				
Commercial - Investor Owned	4,755	587	—	5,342
Commercial - Owner Occupied	2,192	777	—	2,969
Construction and Land Development	6,849	—	—	6,849
Residential	401	—	—	401
Consumer & Other	—	—	—	—
Total	$17,418	$1,364	$340	$19,122

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

The recorded investment by category for the Portfolio loans that have been restructured during the three and nine months ended September 30, 2014 and 2013, is as follows:

	Three months ended September 30, 2014			Three months ended September 30, 2013		
(in thousands, except for number of loans)	Number of Loans	Pre-Modification Outstanding Recorded Balance	Post-Modification Outstanding Recorded Balance	Number of Loans	Pre-Modification Outstanding Recorded Balance	Post-Modification Outstanding Recorded Balance
Commercial & Industrial	2	$ 658	$ 658	—	$ —	$ —
Real Estate:						
Commercial - Owner Occupied	1	357	357	—	—	—
Commercial - Investor Owned	—	—	—	—	—	—
Construction and Land Development	1	2,827	2,827	—	—	—
Residential	—	—	—	—	—	—
Consumer & Other	—	—	—	—	—	—

Total	4	$ 3,842	$ 3,842	—	$ —	$ —

(in thousands, except for number of loans)	Nine months ended September 30, 2014 Number of Loans	Pre-Modification Outstanding Recorded Balance	Post-Modification Outstanding Recorded Balance	Nine months ended September 30, 2013 Number of Loans	Pre-Modification Outstanding Recorded Balance	Post-Modification Outstanding Recorded Balance
Commercial & Industrial	2	$ 658	$ 658	1	$ 5	$ 5
Real Estate:						
Commercial - Owner Occupied	3	1,649	1,399	—	—	—
Commercial - Investor Owned	1	603	603	—	—	—
Construction and Land Development	1	2,827	2,827	—	—	—
Residential	1	125	125	—	—	—
Consumer & Other	—	—	—	—	—	—
Total	8	$ 5,862	$ 5,612	1	$ 5	$ 5

The restructured Portfolio loans resulted from interest rate concessions and changing the terms of the loans. As of September 30, 2014, the Company allocated $0.3 million of specific reserves to the loans that have been restructured.

There were no Portfolio loans that have been restructured and subsequently defaulted in the nine months ended September 30, 2014 and 2013.

The aging of the recorded investment in past due Portfolio loans by portfolio class and category at September 30, 2014, and December 31, 2013, is shown below.

	September 30, 2014				
(in thousands)	30-89 Days Past Due	90 or More Days Past Due	Total Past Due	Current	Total
Commercial & Industrial	$785	$706	$1,491	$1,170,524	$1,172,015
Real Estate:					
Commercial - Owner Occupied	712	1,156	1,868	364,856	366,724
Commercial - Investor Owned	451	4,577	5,028	386,763	391,791
Construction and Land Development	—	2,528	2,528	121,360	123,888
Residential	—	385	385	187,209	187,594
Consumer & Other	15	—	15	52,878	52,893
Total	$1,963	$9,352	$11,315	$2,283,590	$2,294,905

	December 31, 2013				
(in thousands)	30-89 Days Past Due	90 or More Days Past Due	Total Past Due	Current	Total
Commercial & Industrial	$229	$—	$229	$1,041,347	$1,041,576
Real Estate:					
Commercial - Owner Occupied	—	428	428	341,203	341,631
Commercial - Investor Owned	—	6,132	6,132	431,556	437,688
	464	7,344	7,808	109,224	117,032

Construction and Land Development					
Residential	237	213	450	158,077	158,527
Consumer & Other	—	—	—	40,859	40,859
Total	$930	$14,117	$15,047	$2,122,266	$2,137,313

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

- Grades 1, 2, and 3- Includes loans to borrowers with a continuous record of strong earnings, sound balance sheet condition and capitalization, ample liquidity with solid cash flow, and whose management team has experience and depth within their industry.
- Grade 4- Includes loans to borrowers with positive trends in profitability, satisfactory capitalization and balance sheet condition, and sufficient liquidity and cash flow.
- Grade 5- Includes loans to borrowers that may display fluctuating trends in sales, profitability, capitalization, liquidity, and cash flow.
- Grade 6- Includes loans to borrowers where an adverse change or perceived weakness has occurred, but may be correctable in the near future. Alternatively, this rating category may also include circumstances where the borrower is starting to reverse a negative trend or condition, or has recently been upgraded from a 7, 8, or 9 rating.
- Grade 7 - Watch credits are borrowers that have experienced financial setback of a nature that is not determined to be severe or influence ‘ongoing concern’ expectations. Although possible, no loss is anticipated, due to strong collateral and/or guarantor support.
- Grade 8- Substandard credits will include those borrowers characterized by significant losses and sustained downward trends in balance sheet condition, liquidity, and cash flow. Repayment reliance may have shifted to secondary sources. Collateral exposure may exist and additional reserves may be warranted.
- Grade 9- Doubtful credits include borrowers that may show deteriorating trends that are unlikely to be corrected. Collateral values may appear insufficient for full recovery, therefore requiring a partial charge-off, or debt renegotiation with the borrower. The borrower may have declared bankruptcy or bankruptcy is likely in the near term. All doubtful rated credits will be on non-accrual.

The recorded investment by risk category of the Portfolio loans by portfolio class and category at September 30, 2014, which is based upon the most recent analysis performed, and December 31, 2013 is as follows:

	September 30, 2014				
(in thousands)	Pass (1-6)	Watch (7)	Substandard (8)	Doubtful (9)	Total
Commercial & Industrial	$1,066,001	$66,098	$39,545	$371	$1,172,015
Real Estate:					
Commercial - Owner Occupied	337,763	20,241	8,720	—	366,724
Commercial - Investor Owned	353,824	24,295	13,672	—	391,791
Construction and Land Development	99,832	13,547	10,509	—	123,888
Residential	165,300	13,730	8,564	—	187,594
Consumer & Other	52,425	54	414	—	52,893
Total	$2,075,145	$137,965	$81,424	$371	$2,294,905

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

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

Below is a summary of PCI loans by category at September 30, 2014, and December 31, 2013:

	September 30, 2014		December 31, 2013	
(in thousands)	Weighted-Average Risk Rating	Recorded Investment PCI Loans	Weighted-Average Risk Rating	Recorded Investment PCI Loans
Real Estate Loans:				
Construction and land development	6.33	$7,842	6.84	$14,325
Commercial real estate - Investor owned	7.17	39,275	6.81	48,146
Commercial real estate - Owner occupied	6.50	29,922	6.75	32,525
Residential real estate	5.94	30,289	5.92	34,498
Total real estate loans		$107,328		$129,494
Commercial and industrial	7.04	6,103	6.87	9,271
Consumer and other	4.30	431	6.47	1,773
Portfolio loans		$113,862		$140,538

The aging of the recorded investment in past due PCI loans by portfolio class and category at September 30, 2014, and December 31, 2013, is shown below.

	September 30, 2014				
(in thousands)	30-89 Days Past Due	90 or More Days Past Due	Total Past Due	Current	Total
Commercial & Industrial	$338	$702	$1,040	$5,063	$6,103
Real Estate:					
Commercial - Owner Occupied	94	3,466	3,560	26,362	29,922
Commercial - Investor Owned	—	4,270	4,270	35,005	39,275
Construction and Land Development	—	94	94	7,748	7,842
Residential	299	3,831	4,130	26,158	30,288
Consumer & Other	—	13	13	419	432
Total	$731	$12,376	$13,107	$100,755	$113,862

	December 31, 2013				
(in thousands)	30-89 Days Past Due	90 or More Days Past Due	Total Past Due	Current	Total
Commercial & Industrial	$397	$573	$970	$8,301	$9,271
Real Estate:					
Commercial - Owner Occupied	255	6,595	6,850	25,675	32,525
Commercial - Investor Owned	5,143	3,167	8,310	39,836	48,146
Construction and Land Development	32	4,198	4,230	10,095	14,325
Residential	639	5,276	5,915	28,583	34,498
Consumer & Other	—	—	—	1,773	1,773
Total	$6,466	$19,809	$26,275	$114,263	$140,538

The following table is a rollforward of PCI loans, net of the allowance for loan losses, for the nine months ended September 30, 2014 and 2013.

(In thousands)	Contractual Cashflows	Less: Non-accretable Difference	Less: Accretable Yield	Carrying Amount
Balance January 1, 2014	$266,068	$87,438	$53,530	$125,100
Principal reductions and interest payments	(25,261)	—	—	(25,261)
Accretion of loan discount	—	—	(12,323)	12,323
Changes in contractual and expected cash flows due to remeasurement	(2,616)	(7,378)	(500)	5,262
Reductions due to disposals	(30,334)	(7,379)	(3,849)	(19,106)
Balance September 30, 2014	$207,857	$72,681	$36,858	$98,318
Balance January 1, 2013	$386,966	$118,627	$78,768	$189,571
Principal reductions and interest payments	(37,421)	—	—	(37,421)
Accretion of loan discount	—	—	(19,987)	19,987
Changes in contractual and expected cash flows due to remeasurement	9,216	(10,858)	14,233	5,841
Reductions due to disposals	(68,953)	(23,867)	(12,288)	(32,798)
Balance September 30, 2013	$289,808	$83,902	$60,726	$145,180

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

A summary of activity in the FDIC loss share receivable for the nine months ended September 30, 2014 is as follows:

(In thousands)	September 30, 2014
Balance at beginning of period	$34,319
Adjustments not reflected in income:	
Cash received from the FDIC for covered assets	(6,487)
FDIC reimbursable losses, net	1,734
Adjustments reflected in income:	
Amortization, net	(5,375)
Loan impairment	741
Reductions for payments on covered assets in excess of expected cash flows	(2,893)
Balance at end of period	$22,039

Due to continued favorable projections in the expected cash flows, the Company continues to anticipate it will be required to pay the FDIC at the end of two of its loss share agreements. Accordingly, a liability of $2.6 million has been recorded at September 30, 2014. The liability will continue to be adjusted as part of the remeasurement process through the end of the loss share agreements.

NOTE 6 - COMMITMENTS AND CONTINGENCIES

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

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

The Company uses the same credit policies in making commitments and conditional obligations as it does for financial instruments included on its consolidated balance sheets. At September 30, 2014, there were no unadvanced commitments on impaired loans compared to $0.1 million at December 31, 2013. Other liabilities include approximately $0.2 million at both September 30, 2014 and December 31, 2013 for estimated losses attributable to the unadvanced commitments.

The contractual amounts of off-balance-sheet financial instruments as of September 30, 2014, and December 31, 2013, are as follows:

(in thousands)	September 30, 2014	December 31, 2013
Commitments to extend credit	$879,258	$804,420
Standby letters of credit	45,791	44,376

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments usually have fixed expiration dates or other termination clauses, may have significant usage restrictions, and may require payment of a fee. Of the total commitments to extend credit at September 30, 2014, and December 31, 2013, approximately $66.4 million and $50.3 million, respectively, represent fixed rate loan commitments. Since certain of the commitments may expire without being drawn upon or may be revoked, the total commitment amounts do not necessarily represent future cash requirements. The Company evaluates each customer’s credit worthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Company upon extension of credit, is based on management’s credit evaluation of the borrower. The type of collateral held varies, but may include accounts receivable, inventory, premises and equipment, and real estate.

Standby letters of credit are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. These standby letters of credit are issued to support contractual obligations of the Company’s customers. The credit risk involved in issuing standby letters of credit is essentially the same as the risk involved in extending loans to customers. The remaining terms of standby letters of credit range from 1 month to 3.4 years at September 30, 2014.

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.

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NOTE 7 - DERIVATIVE FINANCIAL INSTRUMENTS

Risk Management Instruments. The Company enters into certain derivative contracts to economically hedge state tax credits and certain loans. The table below summarizes the notional amounts and fair values of the derivative instruments used to manage risk.

	Notional Amount		Asset Derivatives (Other Assets) Fair Value		Liability Derivatives (Other Liabilities) Fair Value	
(in thousands)	September 30, 2014	December 31, 2013	September 30, 2014	December 31, 2013	September 30, 2014	December 31, 2013
Non-designated hedging instruments						
Interest rate cap contracts	$23,800	$ 23,800	$2	$ 10	$—	$ —

The following table shows the location and amount of gains and losses related to derivatives used for risk management purposes recorded in the condensed consolidated statements of operations for the three and nine months ended September 30, 2014 and 2013.

	Location of Gain or (Loss) Recognized in Operations on Derivative	Amount of Gain or (Loss) Recognized in Operations on Derivative Three months ended September 30,		Amount of Gain or (Loss) Recognized in Operations on Derivative Nine months ended September 30,	
(in thousands)		2014	2013	2014	2013
Non-designated hedging instruments					
Interest rate cap contracts	Gain on state tax credits, net	$—	$(9)	$(8)	$1

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

	Notional Amount		Asset Derivatives (Other Assets) Fair Value		Liability Derivatives (Other Liabilities) Fair Value	
(in thousands)	September 30, 2014	December 31, 2013	September 30, 2014	December 31, 2013	September 30, 2014	December 31, 2013
Non-designated hedging instruments						
Interest rate swap contracts	$175,906	$ 185,213	$949	$ 990	$949	$ 990

Changes in the fair value of client-related derivative instruments are recognized currently in operations. The following table shows the location and amount of gains and losses recorded in the condensed consolidated statements of operations for the three and nine months ended September 30, 2014 and 2013. For the three and nine months ended September 30, 2014 and 2013 the Company entered into derivative contracts with third parties to fully offset the client-related derivative instruments. Accordingly, there was no fair value adjustment recorded.

	Location of Gain or (Loss) Recognized in Operations on Derivative	Amount of Gain or (Loss) Recognized in Operations on Derivative Three months ended September 30,		Amount of Gain or (Loss) Recognized in Operations on Derivative Nine months ended September 30,	
(in thousands)		2014	2013	2014	2013
Non-designated hedging instruments					
Interest rate swap contracts	Interest and fees on loans	$—	$(32)	$—	$(205)

At September 30, 2014 and December 31, 2013, the Company had $0.9 million and $1.0 million, respectively, of counterparty credit exposure on derivatives. At both September 30, 2014, and December 31, 2013, the Company had pledged cash of $1.0 million, as collateral in connection with our interest rate swap agreements.

NOTE 8 - FAIR VALUE MEASUREMENTS

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

The following table summarizes financial instruments measured at fair value on a recurring basis as of September 30, 2014, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value.

	September 30, 2014			
(in thousands)	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
Assets				
Securities available for sale				
Obligations of U.S. Government-sponsored enterprises	$—	$92,272	$—	$92,272
Obligations of states and political subdivisions	—	46,887	3,054	49,941
Agency mortgage-backed securities	—	314,371	—	314,371
Total securities available for sale	$—	$453,530	$3,054	$456,584
State tax credits held for sale	—	—	15,131	15,131
Derivative financial instruments	—	951	—	951
Total assets	$—	$454,481	$18,185	$472,666
Liabilities				
Derivative financial instruments	$—	$949	$	