

ENTERPRISE FINANCIAL SERVICES CORP
Form 10-Q
July 29, 2014

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, 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 No

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

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

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

(Do not check if a smaller reporting company)

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

As of July 25, 2014, the Registrant had 19,773,427 shares of outstanding common stock, \$0.01 par value.

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

ENTERPRISE FINANCIAL SERVICES CORP AND SUBSIDIARIES
TABLE OF CONTENTS

	Page
PART I - FINANCIAL INFORMATION	
Item 1. Financial Statements	
Condensed Consolidated Balance Sheets (Unaudited)	<u>1</u>
Condensed Consolidated Statements of Operations (Unaudited)	<u>2</u>
Condensed Consolidated Statements of Comprehensive Income (Unaudited)	<u>3</u>
Condensed Consolidated Statements of Shareholders' Equity (Unaudited)	<u>4</u>
Condensed Consolidated Statements of Cash Flows (Unaudited)	<u>5</u>
Notes to Condensed Consolidated Financial Statements (Unaudited)	<u>6</u>
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	<u>29</u>
Item 3. Quantitative and Qualitative Disclosures About Market Risk	<u>49</u>
Item 4. Controls and Procedures	<u>51</u>
PART II - OTHER INFORMATION	
Item 1. Legal Proceedings	<u>51</u>
Item 1A. Risk Factors	<u>51</u>
Item 6. Exhibits	<u>52</u>
Signatures	<u>53</u>

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, 2014	December 31, 2013
Assets		
Cash and due from banks	\$32,993	\$19,573
Federal funds sold	44	76
Interest-bearing deposits (including \$1,250 and \$990 pledged as collateral)	89,392	190,920
Total cash and cash equivalents	122,429	210,569
Interest-bearing deposits greater than 90 days	5,300	5,300
Securities available for sale	448,049	434,587
Loans held for sale	5,375	1,834
Portfolio loans	2,251,102	2,137,313
Less: Allowance for loan losses	28,422	27,289
Portfolio loans, net	2,222,680	2,110,024
Purchase credit impaired loans, net of the allowance for loan losses (\$17,539 and \$15,438, respectively)	100,965	125,100
Total loans, net	2,323,645	2,235,124
Other real estate not covered under FDIC loss share	7,613	7,576
Other real estate covered under FDIC loss share	12,821	15,676
Other investments, at cost	16,110	12,605
Fixed assets, net	17,930	18,180
Accrued interest receivable	7,009	7,303
State tax credits, held for sale, including \$14,985 and \$16,491 carried at fair value, respectively	45,529	48,457
FDIC loss share receivable	25,508	34,319
Goodwill	30,334	30,334
Intangible assets, net	4,767	5,418
Other assets	103,022	102,915
Total assets	\$3,175,441	\$3,170,197
Liabilities and Shareholders' Equity		
Demand deposits	\$675,301	\$653,686
Interest-bearing transaction accounts	235,142	219,802
Money market accounts	872,681	948,884
Savings	84,206	79,666
Certificates of deposit:		
\$100 and over	454,328	475,544
Other	143,792	157,371
Total deposits	2,465,450	2,534,953
Subordinated debentures	56,807	62,581
Federal Home Loan Bank advances	153,600	50,000
Other borrowings	165,943	203,831
Notes payable	6,300	10,500
Accrued interest payable	862	957
Other liabilities	24,915	27,670
Total liabilities	2,873,877	2,890,492
Shareholders' equity:		

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Preferred stock, \$0.01 par value; 5,000,000 shares authorized; 0 shares issued and outstanding	—	—
Common stock, \$0.01 par value; 30,000,000 shares authorized; 19,840,568 and 19,399,709 shares issued, respectively	198	194
Treasury stock, at cost; 76,000 shares	(1,743	) (1,743)
Additional paid in capital	206,232	200,258
Retained earnings	96,298	85,376
Accumulated other comprehensive income (loss)	579	(4,380)
Total shareholders' equity	301,564	279,705
Total liabilities and shareholders' equity	\$3,175,441	\$3,170,197
See accompanying notes to condensed consolidated financial statements.		

1

ENTERPRISE FINANCIAL SERVICES CORP AND SUBSIDIARIES

Condensed Consolidated Statements of Operations (Unaudited)

(In thousands, except per share data)	Three months ended June 30,		Six months ended June 30,	
	2014	2013	2014	2013
Interest income:				
Interest and fees on loans	\$29,743	\$35,585	\$61,187	\$74,934
Interest on debt securities:				
Taxable	2,189	2,054	4,355	4,167
Nontaxable	299	305	598	606
Interest on interest-bearing deposits	36	46	102	93
Dividends on equity securities	42	71	91	171
Total interest income	32,309	38,061	66,333	79,971
Interest expense:				
Interest-bearing transaction accounts	110	123	222	261
Money market accounts	700	752	1,442	1,634
Savings	50	56	99	115
Certificates of deposit:				
\$100 and over	1,336	1,429	2,662	2,881
Other	419	460	843	946
Subordinated debentures	303	949	710	1,901
Federal Home Loan Bank advances	456	730	855	1,464
Notes payable and other borrowings	193	254	392	562
Total interest expense	3,567	4,753	7,225	9,764
Net interest income	28,742	33,308	59,108	70,207
Provision for portfolio loan losses	1,348	(4,295)	) 2,375	(2,442)
Provision for purchase credit impaired loan losses	(470)	) (2,278)	) 2,834	(22)
Net interest income after provision for loan losses	27,864	39,881	53,899	72,671
Noninterest income:				
Wealth Management revenue	1,715	1,778	3,437	3,721
Service charges on deposit accounts	1,767	1,724	3,505	3,257
Other service charges and fee income	702	661	1,339	1,308
Gain on sale of other real estate	717	362	1,400	1,090
Gain on state tax credits, net	207	39	704	906
Gain on sale of investment securities	—	—	—	684
Change in FDIC loss share receivable	(2,742)	) (6,713)	) (5,152)	) (10,798)
Miscellaneous income	1,039	472	2,094	1,069
Total noninterest income	3,405	(1,677)	) 7,327	1,237
Noninterest expense:				
Employee compensation and benefits	11,853	10,766	23,969	22,229
Occupancy	1,675	1,693	3,315	3,609
Data processing	1,125	936	2,251	1,857
FDIC and other insurance	761	833	1,460	1,692
Loan legal and other real estate expense	1,040	2,075	2,174	2,108
Professional fees	592	928	1,859	2,353
Other	3,399	3,916	6,519	7,584
Total noninterest expense	20,445	21,147	41,547	41,432
Income before income tax expense	10,824	17,057	19,679	32,476
Income tax expense	3,664	6,024	6,671	11,403

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Net income	\$7,160	\$11,033	\$13,008	\$21,073
Earnings per common share				
Basic	\$0.36	\$0.61	\$0.66	\$1.17
Diluted	0.36	0.58	0.66	1.11

See accompanying notes to condensed consolidated financial statements.

2

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,	
	2014	2013	2014	2013
Net income	\$7,160	\$11,033	\$13,008	\$21,073
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 \$1,988, and \$(5,155), and for six months of \$3,079 and \$(6,314), respectively.	3,202	(8,098	) 4,959	(9,920)
Less reclassification adjustment for realized gains on sale of securities available for sale included in net income, net of income tax expense for three months of \$0, and \$0, and for the six months of \$0, and \$267, respectively.	—	—	—	(417)
Total other comprehensive income (loss)	3,202	(8,098	) 4,959	(10,337)
Total comprehensive income	\$10,362	\$2,935	\$17,967	\$10,736

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	—	—	—	—	13,008	—	13,008
Other comprehensive income	—	—	—	—	—	4,959	4,959
Cash dividends paid on common shares, \$0.105 per share	—	—	—	—	(2,086)	—	(2,086)
Issuance under equity compensation plans, 153,007 shares	—	1	—	(650)	—	—	(649)
Trust preferred securities conversion 287,852 shares	—	3	—	4,999	—	—	5,002
Share-based compensation	—	—	—	1,524	—	—	1,524
Excess tax benefit related to equity compensation plans	—	—	—	101	—	—	101
Balance June 30, 2014	\$—	\$ 198	\$(1,743)	\$206,232	\$96,298	\$ 579	\$ 301,564

(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	—	—	—	—	21,073	—	21,073
Other comprehensive loss	—	—	—	—	—	(10,337)	(10,337)
Cash dividends paid on common shares, \$0.105 per share	—	—	—	—	(1,904)	—	(1,904)
Repurchase of common stock warrants	—	—	—	(1,006)	—	—	(1,006)
Issuance under equity compensation plans, 211,314 shares	—	2	—	2,262	—	—	2,264
Share-based compensation	—	—	—	1,788	—	—	1,788
Excess tax benefit related to equity compensation plans	—	—	—	52	—	—	52
Balance June 30, 2013	\$—	\$ 183	\$(1,743)	\$176,395	\$75,387	\$ (2,547)	\$ 247,675

See accompanying notes to condensed consolidated financial statements.

ENTERPRISE FINANCIAL SERVICES CORP AND SUBSIDIARIES

Condensed Consolidated Statements of Cash Flows (Unaudited)

(in thousands)	Six months ended June 30,	
	2014	2013
Cash flows from operating activities:		
Net income	\$13,008	\$21,073
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	1,077	1,360
Provision for loan losses	5,209	(2,464)
Deferred income taxes	3,257	1,267
Net amortization of debt securities	1,910	3,299
Amortization of intangible assets	651	930
Gain on sale of investment securities	—	(684)
Mortgage loans originated for sale	(31,543)	(34,645)
Proceeds from mortgage loans sold	28,184	39,474
Gain on sale of other real estate	(1,400)	(1,090)
Gain on state tax credits, net	(704)	(906)
Excess tax benefit of share-based compensation	(101)	—
Share-based compensation	1,524	1,788
Valuation adjustment on other real estate	590	754
Net accretion of loan discount and indemnification asset	(5,818)	(8,725)
Changes in:		
Accrued interest receivable	294	(737)
Accrued interest payable	(95)	(238)
Prepaid FDIC insurance	—	2,607
Other assets	(8,250)	(11,002)
Other liabilities	(2,754)	(5,683)
Net cash provided by operating activities	5,039	6,378
Cash flows from investing activities:		
Net (increase) decrease in loans	(87,491)	65,771
Net cash proceeds received from FDIC loss share receivable	4,212	7,442
Proceeds from the sale of debt and equity securities, available for sale	—	122,894
Proceeds from the maturity of debt and equity securities, available for sale	22,519	50,468
Proceeds from the redemption of other investments	8,409	15,689
Proceeds from the sale of state tax credits held for sale	3,639	8,126
Proceeds from the sale of other real estate	8,754	9,925
Payments for the purchase/origination of:		
Available for sale debt and equity securities	(29,853)	(23,700)
Other investments	(11,914)	(20,858)
Bank owned life insurance	—	(20,000)
State tax credits held for sale	—	(1,365)
Fixed assets	(828)	(834)
Net cash (used in) provided by investing activities	(82,553)	213,558
Cash flows from financing activities:		
Net increase/(decrease) in noninterest-bearing deposit accounts	21,614	(68,527)
Net decrease in interest-bearing deposit accounts	(91,118)	(222,091)
Proceeds from Federal Home Loan Bank advances	278,600	459,000
Repayments of Federal Home Loan Bank advances	(175,000)	(348,000)
Repayments of notes payable	(4,200)	(600)

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Repayments of subordinated debentures	—	(2,000)
Net decrease in other borrowings	(37,888) (55,158)
Cash dividends paid on common stock	(2,086	) (1,904)
Excess tax benefit of share-based compensation	101	52	
Payments for the repurchase of common stock warrants	—	(1,006)
Employee stock issuances, net	(649	) 2,264	
Net cash used by financing activities	(10,626	) (237,970)
Net (decrease) increase in cash and cash equivalents	(88,140	) (18,034)
Cash and cash equivalents, beginning of period	210,569	116,370	
Cash and cash equivalents, end of period	\$122,429	\$98,336	
Supplemental disclosures of cash flow information:			
Cash paid during the period for:			
Interest	\$7,320	\$10,002	
Income taxes	8,498	16,936	
Noncash transactions:			
Transfer to other real estate owned in settlement of loans	6,158	10,908	
Sales of other real estate financed	1,107	2,881	
Issuance of common stock from Trust Preferred Securities conversion	5,002	—	
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 six months ended June 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. They do not include all information and footnotes required by U.S. GAAP for annual financial statements. 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.

(in thousands, except per share data)	Three months ended June 30,		Six months ended June 30,	
	2014	2013	2014	2013
Net income as reported	\$7,160	\$11,033	\$13,008	\$21,073
Impact of assumed conversions				
Interest on 9% convertible trust preferred securities, net of income tax	—	354	66	709
Net income available to common shareholders and assumed conversions	\$7,160	\$11,387	\$13,074	\$21,782
Weighted average common shares outstanding	19,824	18,119	19,673	18,052
Incremental shares from assumed conversions of convertible trust preferred securities	—	1,439	115	1,439
Additional dilutive common stock equivalents	139	153	168	115
Weighted average diluted common shares outstanding	19,963	19,711	19,956	19,606
Basic earnings per common share:	\$0.36	\$0.61	\$0.66	\$1.17
Diluted earnings per common share:	\$0.36	\$0.58	\$0.66	\$1.11

For the three months ended June 30, 2014 and 2013, the amount of common stock equivalents that were excluded from the earnings per share calculations because their effect was anti-dilutive was 289,469, and 551,667 common stock equivalents, respectively. For the six months ended June 30, 2014 and 2013, the amount of common stock equivalents that were excluded from the earnings per share calculations because their effect was anti-dilutive was 286,469, and 547,356 common stock equivalents (including 14,324 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:

June 30, 2014				
(in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for sale securities:				
Obligations of U.S. Government-sponsored enterprises	\$92,289	\$806	\$(124)	\$92,971
Obligations of states and political subdivisions	49,301	1,474	(842)	49,933
Agency mortgage-backed securities	305,396	3,852	(4,103)	305,145
	\$446,986	\$6,132	\$(5,069)	\$448,049
December 31, 2013				
(in thousands)	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 June 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 \$244.6 million and \$270.1 million at June 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 June 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	\$2,214	\$2,248
Due after one year through five years	108,727	110,065
Due after five years through ten years	22,425	22,767
Due after ten years	8,224	7,824
Mortgage-backed securities	305,396	305,145
	\$446,986	\$448,049

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

(in thousands)	June 30, 2014				Total	
	Less than 12 months		12 months or more			
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Obligations of U.S. Government-sponsored enterprises	\$—	\$—	\$24,870	\$124	\$24,870	\$124
Obligations of states and political subdivisions	\$1,180	\$3	\$17,047	\$839	\$18,227	\$842
Agency mortgage-backed securities	4,152	11	136,626	4,092	140,778	4,103
	\$5,332	\$14	\$178,543	\$5,055	\$183,875	\$5,069
(in thousands)	December 31, 2013				Total	
	Less than 12 months		12 months or more			
	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 June 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 June 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:

(in thousands)	Three months ended June 30,		Six months ended June 30,	
	2014	2013	2014	2013
Gross gains realized	\$—	\$—	\$—	\$866
Gross losses realized	—	—	—	(182
Proceeds from sales	—	—	—	122,894

NOTE 4 - PORTFOLIO LOANS

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

(in thousands)	June 30, 2014	December 31, 2013
Real Estate Loans:		
Construction and land development	\$ 137,043	\$ 117,032
Commercial real estate - Investor owned	386,088	437,688
Commercial real estate - Owner occupied	369,383	341,631
Residential real estate	173,964	158,527
Total real estate loans	\$ 1,066,478	\$ 1,054,878
Commercial and industrial	1,135,069	1,041,576
Consumer and other	48,476	39,838
Portfolio loans	\$ 2,250,023	\$ 2,136,292
Unearned loan costs, net	1,079	1,021
Portfolio loans, including unearned loan costs	\$ 2,251,102	\$ 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.

A summary of the year-to-date activity in the allowance for loan losses and the recorded investment in Portfolio loans by class and category based on impairment method through June 30, 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
(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 June 30, 2014							
Allowance for Loan Losses - Ending Balance:							
Individually evaluated for impairment	\$1,178	\$298	\$—	\$ 375	\$10	\$—	\$1,861
Collectively evaluated for impairment	13,897	3,723	4,330	1,780	2,517	314	26,561
Total	\$15,075	\$4,021	\$4,330	\$ 2,155	\$2,527	\$314	\$28,422
Loans - Ending Balance:							
Individually evaluated for impairment	\$4,649	\$4,276	\$5,174	\$ 7,422	\$544	\$—	\$22,065
Collectively evaluated for impairment	1,130,420	365,107	380,914	129,621	173,420	49,555	2,229,037
Total	\$1,135,069	\$369,383	\$386,088	\$ 137,043	\$173,964	\$49,555	\$2,251,102
Balance at December 31, 2013							
Allowance for Loan Losses - Ending							

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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

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

(in thousands)	June 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	\$6,229	\$4,059	\$—	\$4,059	\$933	\$4,315
Real Estate:						
Commercial - Owner Occupied	3,315	778	1,310	2,088	298	1,229
Commercial - Investor Owned	5,174	—	5,174	5,174	—	3,623
Construction and Land Development	7,917	441	6,981	7,422	375	7,902
Residential	545	31	513	544	10	540
Consumer & Other	—	—	—	—	—	391
Total	\$23,180	\$5,309	\$13,978	\$19,287	\$1,616	\$18,000

(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

There were no loans over 90 days past due and still accruing interest at June 30, 2014. If interest on impaired loans would have been accrued based upon the original contractual terms, such income would have been \$0.4 million and \$0.7 million for the three and six months ended June 30, 2014, respectively. The cash amount collected and recognized as interest income on impaired loans was \$9,200 and \$32,000 for the three and six months ended June 30, 2014, respectively. There was \$6,000 and \$15,000 of interest income recognized on impaired loans continuing to accrue interest for the three and six months ended June 30, 2014 and \$29,000 of interest income for the six months ended June 30, 2013. There was no interest income recognized on impaired loans continuing to accrue interest for the three months ended June 30, 2013. At June 30, 2014, there were no unadvanced commitments on impaired loans. Other liabilities include approximately \$0.2 million for estimated losses attributable to the unadvanced commitments.

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

(in thousands)	June 30, 2014			Total
	Non-accrual	Restructured	Loans over 90 days past due and still accruing interest	
Commercial & Industrial	\$4,103	\$—	\$—	\$4,103
Real Estate:				
Commercial - Investor Owned	4,693	597	—	5,290
Commercial - Owner Occupied	1,559	780	—	2,339
Construction and Land Development	7,919	—	—	7,919
Residential	431	125	—	556
Consumer & Other	—	—	—	—
Total	\$18,705	\$1,502	\$—	\$20,207

(in thousands)	December 31, 2013			Total
	Non-accrual	Restructured	Loans over 90 days past due and still accruing interest	
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 six months ended June 30, 2014 and 2013, is as follows:

(in thousands, except for number of loans)	Number of Loans	Three months ended June 30, 2014		Number of Loans	Three months ended June 30, 2013	
		Pre-Modification Outstanding Recorded Balance	Post-Modification Outstanding Recorded Balance		Pre-Modification Outstanding Recorded Balance	Post-Modification Outstanding Recorded Balance
Commercial & Industrial	—	\$ —	\$ —	—	\$ —	\$ —
Real Estate:						
Commercial - Owner Occupied	—	—	—	—	—	—
Commercial - Investor Owned	1	603	603	—	—	—
Construction and Land Development	—	—	—	—	—	—
Residential	1	125	125	—	—	—
Consumer & Other	—	—	—	—	—	—
Total	2	\$ 728	\$ 728	—	\$ —	\$ —

(in thousands, except for number of loans)	Six months ended June 30, 2014			Six months ended June 30, 2013		
	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	—	\$ —	\$ —	1	\$ 5	\$ —
Real Estate:						
Commercial - Owner Occupied	2	1,292	1,042	—	—	—
Commercial - Investor Owned	1	603	603	—	—	—
Construction and Land Development	—	—	—	—	—	—
Residential	1	125	125	—	—	—
Consumer & Other	—	—	—	—	—	—
Total	4	\$ 2,020	\$ 1,770	1	\$ 5	\$ —

The restructured Portfolio loans resulted from interest rate concessions and changing the terms of the loans. As of June 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 six months ended June 30, 2014 and 2013.

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

(in thousands)	June 30, 2014			Current	Total
	30-89 Days Past Due	90 or More Days Past Due	Total Past Due		
Commercial & Industrial	\$1,155	\$—	\$1,155	\$1,133,914	\$1,135,069
Real Estate:					
Commercial - Owner Occupied	335	1,155	1,490	367,893	369,383
Commercial - Investor Owned	—	4,577	4,577	381,511	386,088
Construction and Land Development	—	5,956	5,956	131,087	137,043
Residential	600	201	801	173,163	173,964
Consumer & Other	—	—	—	49,555	49,555
Total	\$2,090	\$11,889	\$13,979	\$2,237,123	\$2,251,102

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

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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

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

Grades 1, 2, and 3- These grades include 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- This grade includes loans to borrowers with positive trends in profitability, satisfactory capitalization and balance sheet condition, and sufficient liquidity and cash flow.

Grade 5- This grade includes loans to borrowers that may display fluctuating trends in sales, profitability, capitalization, liquidity, and cash flow.

Grade 6- This grade 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 that are characterized by significant losses and sustained downward trends in balance sheet condition, liquidity, and cash flow. Repayment reliance may have shifted to secondary sources. Collateral exposure may exist and additional reserves may be warranted.

Grade 9- Doubtful credits include borrowers that may show deteriorating trends that are unlikely to be corrected. Collateral values may appear insufficient for full recovery, therefore requiring a partial charge-off, or debt renegotiation with the borrower. The borrower may have declared bankruptcy or bankruptcy is likely in the near term. All doubtful rated credits will be on non-accrual.

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

(in thousands)	June 30, 2014				Total
	Pass (1-6)	Watch (7)	Substandard (8)	Doubtful (9)	
Commercial & Industrial	\$ 1,041,940	\$ 59,877	\$ 31,849	\$ 1,403	\$ 1,135,069
Real Estate:					
Commercial - Owner Occupied	335,432	23,989	9,962	—	369,383
Commercial - Investor Owned	345,803	26,570	13,715	—	386,088
Construction and Land Development	108,462	16,748	11,392	441	137,043
Residential	157,245	7,711	9,008	—	173,964
Consumer & Other	49,145	57	353	—	49,555
Total	\$ 2,038,027	\$ 134,952	\$ 76,279	\$ 1,844	\$ 2,251,102

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

NOTE 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 June 30, 2014, and December 31, 2013:

(in thousands)	June 30, 2014		December 31, 2013	
	Weighted-Average Risk Rating	Recorded Investment PCI Loans	Weighted-Average Risk Rating	Recorded Investment PCI Loans
Real Estate Loans:				
Construction and land development	6.46	\$7,885	6.84	\$14,325
Commercial real estate - Investor owned	7.07	41,699	6.81	48,146
Commercial real estate - Owner occupied	6.58	30,396	6.75	32,525
Residential real estate	5.94	30,736	5.92	34,498
Total real estate loans		\$110,716		\$129,494
Commercial and industrial	6.93	7,300	6.87	9,271
Consumer and other	4.30	488	6.47	1,773
Portfolio loans		\$118,504		\$140,538

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