

ENTERPRISE FINANCIAL SERVICES CORP  
Form 10-Q  
May 01, 2019

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 March 31, 2019.

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 every Interactive Data File required to be submitted 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 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  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

As of April 26, 2019, the Registrant had 26,880,408 shares of outstanding common stock, \$0.01 par value per share.

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

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ENTERPRISE FINANCIAL SERVICES CORP AND SUBSIDIARIES  
TABLE OF CONTENTS

Page  
PART  
I -  
FINANCIAL  
INFORMATION

Item  
1.  
Financial  
Statements

Condensed  
Consolidated  
Balance  
Sheets  
(Unaudited)

Condensed  
Consolidated  
Statements  
of 2  
Operations  
(Unaudited)

Condensed  
Consolidated  
Statements  
of 3  
Comprehensive  
Income  
(Unaudited)

Condensed  
Consolidated  
Statements  
of 4  
Shareholders'  
Equity  
(Unaudited)

Condensed  
Consolidated  
Statements  
of

Cash  
Flows  
(Unaudited)

Notes  
to  
Condensed  
Consolidated  
Financial  
Statements  
(Unaudited)

Item  
2.  
Management's  
Discussion  
and  
Analysis  
of 30  
Financial  
Condition  
and  
Results  
of  
Operations

Item  
3.  
Quantitative  
and  
Qualitative  
Disclosures  
About  
Market  
Risk

Item  
4.  
Controls  
and  
Procedures

PART  
II -  
OTHER  
INFORMATION

Item  
1. 51  
Legal  
Proceedings

Item  
1A. 52  
Risk  
Factors

Item  
2.  
Unregistered  
Sales  
of  
Equip~~52~~  
Securities  
and  
Use  
of  
Proceeds

Item  
3.  
Defaults  
Upon<sup>53</sup>  
Senior  
Securities

Item  
4.  
Mine~~53~~  
Safety  
Disclosures

Item  
5. 53  
Other  
Information

Item  
6. 54  
Exhibits

Sign~~54~~atures

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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)  | March 31,<br>2019 | December 31,<br>2018 |
|--|-------------------|----------------------|
| <b>Assets</b>  |                   |                      |
| Cash and due from banks  | \$85,578          | \$91,511             |
| Federal funds sold   | 1,934             | 1,714                |
| Interest-earning deposits (including \$6,665 and \$1,305 pledged as collateral, respectively)    | 133,970           | 103,327              |
| Total cash and cash equivalents  | 221,482           | 196,552              |
| Interest-earning deposits greater than 90 days   | 3,485             | 3,185                |
| Securities available for sale  | 1,099,185         | 721,369              |
| Securities held to maturity, at cost   | 64,368            | 65,679               |
| Loans held for sale  | 654               | 392                  |
| Loans  | 5,017,077         | 4,350,001            |
| Less: Allowance for loan losses  | 43,095            | 43,476               |
| Loans, net   | 4,973,982         | 4,306,525            |
| Other real estate  | 6,804             | 469                  |
| Other investments, at cost   | 34,860            | 26,654               |
| Fixed assets, net  | 60,301            | 32,109               |
| Operating lease right-of-use asset   | 14,858            | —                    |
| Accrued interest receivable  | 26,276            | 16,069               |
| State tax credits held for sale, at cost   | 37,215            | 37,587               |
| Goodwill   | 207,632           | 117,345              |
| Intangible assets, net   | 31,048            | 8,553                |
| Other assets   | 150,607           | 113,174              |
| Total assets   | \$6,932,757       | \$5,645,662          |
| <b>Liabilities and Shareholders' Equity</b>  |                   |                      |
| Demand deposits  | \$1,186,508       | \$1,100,718          |
| Interest-bearing transaction accounts  | 1,389,826         | 1,037,684            |
| Money market accounts  | 1,580,291         | 1,565,729            |
| Savings  | 575,740           | 199,425              |
| Certificates of deposit:   |                   |                      |
| Brokered   | 180,788           | 198,981              |
| Other  | 623,960           | 485,448              |
| Total deposits   | 5,537,113         | 4,587,985            |
| Subordinated debentures and notes (net of debt issuance cost of \$972 and \$1,005, respectively) | 140,668           | 118,156              |
| Federal Home Loan Bank advances  | 180,466           | 70,000               |
| Other borrowings   | 172,171           | 221,450              |
| Notes payable  | 40,000            | 2,000                |
| Operating lease liability  | 15,462            | —                    |
| Accrued interest payable   | 3,231             | 1,977                |
| Other liabilities  | 45,811            | 40,290               |
| Total liabilities  | 6,134,922         | 5,041,858            |
| Shareholders' equity:  | —                 | —                    |

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|  |             |              |
|--|-------------|--------------|
| Preferred stock, \$0.01 par value;<br>5,000,000 shares authorized; 0 shares issued and outstanding                     |             |              |
| Common stock, \$0.01 par value; 30,000,000 shares authorized; 28,004,905 and 23,938,994<br>shares issued, respectively | 280         | 239          |
| Treasury stock, at cost; 1,127,105 shares  | (42,655 )   | (42,655 )    |
| Additional paid in capital   | 521,761     | 350,936      |
| Retained earnings  | 316,959     | 304,566      |
| Accumulated other comprehensive income (loss)  | 1,490       | (9,282 )     |
| Total shareholders' equity   | 797,835     | 603,804      |
| Total liabilities and shareholders' equity   | \$6,932,757 | \$ 5,645,662 |

The accompanying notes are an integral part of these consolidated financial statements.

## ENTERPRISE FINANCIAL SERVICES CORP AND SUBSIDIARIES

## Condensed Consolidated Statements of Operations (Unaudited)

|   | Three months<br>ended<br>March 31, |          |
|---|------------------------------------|----------|
| (in thousands, except per share data)               | 2019                               | 2018     |
| Interest income:                                    |                                    |          |
| Interest and fees on loans                          | \$61,025                           | \$50,450 |
| Interest on debt securities:                        |                                    |          |
| Taxable   | 5,475                              | 3,987    |
| Nontaxable  | 447                                | 282      |
| Interest on interest-bearing deposits               | 447                                | 240      |
| Dividends on equity securities                      | 223                                | 205      |
| Total interest income                               | 67,617                             | 55,164   |
| Interest expense:                                   |                                    |          |
| Interest-bearing transaction accounts               | 1,790                              | 806      |
| Money market accounts                               | 6,515                              | 3,353    |
| Savings accounts                                    | 183                                | 125      |
| Certificates of deposit                             | 3,332                              | 1,899    |
| Subordinated debentures and notes                   | 1,648                              | 1,368    |
| Federal Home Loan Bank advances                     | 1,398                              | 1,258    |
| Notes payable and other borrowings                  | 408                                | 184      |
| Total interest expense                              | 15,274                             | 8,993    |
| Net interest income                                 | 52,343                             | 46,171   |
| Provision for loan losses                           | 1,476                              | 1,871    |
| Net interest income after provision for loan losses | 50,867                             | 44,300   |
| Noninterest income:                                 |                                    |          |
| Service charges on deposit accounts                 | 2,935                              | 2,851    |
| Wealth management revenue                           | 1,992                              | 2,114    |
| Card services revenue                               | 1,790                              | 1,516    |
| Gain on sale of other real estate                   | 66                                 | —        |
| Tax credit activity, net                            | 158                                | 252      |
| Miscellaneous income                                | 2,289                              | 2,809    |
| Total noninterest income                            | 9,230                              | 9,542    |
| Noninterest expense:                                |                                    |          |
| Employee compensation and benefits                  | 19,352                             | 16,491   |
| Occupancy   | 2,637                              | 2,406    |
| Data processing                                     | 1,906                              | 1,467    |
| Professional fees                                   | 746                                | 849      |
| FDIC and other insurance                            | 848                                | 917      |
| Loan legal and other real estate expense            | 482                                | 299      |
| Merger related expenses                             | 7,270                              | —        |
| Other   | 6,597                              | 6,714    |
| Total noninterest expense                           | 39,838                             | 29,143   |
| Income before income tax expense                    | 20,259                             | 24,699   |
| Income tax expense                                  | 4,103                              | 3,778    |
| Net income  | \$16,156                           | \$20,921 |



Earnings per common share

|         |        |        |
|---------|--------|--------|
| Basic   | \$0.68 | \$0.91 |
| Diluted | 0.67   | 0.90   |

The accompanying notes are an integral part of these consolidated financial statements.

2

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

| (in thousands)  | Three months<br>ended<br>March 31, |           |
|---|------------------------------------|-----------|
|   | 2019                               | 2018      |
| Net income  | \$ 16,156                          | \$ 20,921 |
| 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 \$3,774 and \$(2,265), respectively   | 11,504                             | (6,904 )  |
| Less: Reclassification adjustment for realized gains (losses) on sale of securities available for sale included in net income, net of income tax expense (benefit) for three months of (\$72) and \$2, respectively | 220                                | (7 )      |
| Unrealized loss on cash flow hedges arising during the period, net of income tax benefit of \$312   | (952 )                             | —         |
| Total other comprehensive income (loss)   | 10,772                             | (6,911 )  |
| Total comprehensive income  | \$ 26,928                          | \$ 14,010 |

The accompanying notes are an integral part of these consolidated financial statements.

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

| (in thousands, except per share data)   | Common<br>Stock | Treasury<br>Stock | Additional<br>paid in<br>capital | Retained<br>earnings | Accumulated<br>other<br>comprehensive<br>income (loss) | Total<br>shareholders'<br>equity |
|---|-----------------|-------------------|----------------------------------|----------------------|--|----------------------------------|
| Balance at December 31, 2018  | \$ 239          | \$(42,655)        | \$350,936                        | \$304,566            | \$(9,282)  | \$603,804                        |
| Net income  | —               | —                 | —                                | 16,156               | —  | 16,156                           |
| Other comprehensive income  | —               | —                 | —                                | —                    | 10,772   | 10,772                           |
| Total comprehensive income  | —               | —                 | —                                | 16,156               | 10,772   | 26,928                           |
| Cash dividends paid on common shares, \$0.14 per share  | —               | —                 | —                                | (3,763)              | —  | (3,763)                          |
| Issuance under equity compensation plans, 75,089 shares, net                                  | 1               | —                 | (1,941)                          | —                    | —  | (1,940)                          |
| Share-based compensation  | —               | —                 | 921                              | —                    | —  | 921                              |
| Shares issued in connection with acquisition of Trinity Capital Corporation, 3,990,822 shares | 40              | —                 | 171,845                          | —                    | —  | 171,885                          |
| Balance at March 31, 2019   | \$ 280          | \$(42,655)        | \$521,761                        | \$316,959            | \$ 1,490   | \$797,835                        |

| (in thousands, except per share data)                         | Common<br>Stock | Treasury<br>Stock | Additional<br>paid in<br>capital | Retained<br>earnings | Accumulated<br>other<br>comprehensive<br>income (loss) | Total<br>shareholders'<br>equity |
|---|-----------------|-------------------|----------------------------------|----------------------|--|----------------------------------|
| Balance at December 31, 2017                                  | \$ 238          | \$(23,268)        | \$350,061                        | \$225,360            | \$(3,818)  | \$548,573                        |
| Net income  | —               | —                 | —                                | 20,921               | —  | 20,921                           |
| Other comprehensive loss                                      | —               | —                 | —                                | —                    | (6,911)  | (6,911)                          |
| Total comprehensive income (loss)                             | —               | —                 | —                                | 20,921               | (6,911)  | 14,010                           |
| Cash dividends paid on common shares, \$0.11 per share        | —               | —                 | —                                | (2,542)              | —  | (2,542)                          |
| Repurchase of common shares                                   | —               | (3,058)           | —                                | —                    | —  | (3,058)                          |
| Issuance under equity compensation plans, 86,598 shares, net  | 1               | —                 | (2,687)                          | —                    | —  | (2,686)                          |
| Share-based compensation                                      | —               | —                 | 718                              | —                    | —  | 718                              |
| Reclassification adjustment for change in accounting policies | —               | —                 | —                                | 834                  | (834)  | —                                |
| Balance at March 31, 2018                                     | \$ 239          | \$(26,326)        | \$348,092                        | \$244,573            | \$(11,563)   | \$555,015                        |

The accompanying notes are an integral part of these consolidated financial statements.

## ENTERPRISE FINANCIAL SERVICES CORP AND SUBSIDIARIES

## Condensed Consolidated Statements of Cash Flows (Unaudited)

Three months ended March 31,

| (in thousands, except share data)  | 2019      |  | 2018      |
|--|-----------|--|-----------|
| Cash flows from operating activities:  |           |  |           |
| Net income   | \$ 16,156 |  | \$ 20,921 |
| Adjustments to reconcile net income to net cash provided by operating activities |           |  |           |
| Depreciation   | 1,162     |  | 849       |
| Provision for loan losses  | 1,476     |  | 1,870     |
| Deferred income taxes  | 2,727     |  | 2,290     |
| Net amortization of debt securities  | 407       |  | 533       |
| Amortization of intangible assets  | 838       |  | 656       |
| Loss (gain) on sale of investment securities                                     | 292       |  | (9 )      |
| Mortgage loans originated for sale   | (4,087 )  |  | (12,389 ) |
| Proceeds from mortgage loans sold  | 3,825     |  | 13,917    |
| Gain on sale of other real estate  | (66 )     |  | —         |
| Gain on state tax credits, net   | (158 )    |  | (252 )    |
| Share-based compensation   | 921       |  | 718       |
| Net accretion of loan discount   | (596 )    |  | (467 )    |
| Changes in:  |           |  |           |
| Accrued interest receivable  | (6,210 )  |  | (3,209 )  |
| Accrued interest payable   | 884       |  | 315       |
| Other assets   | (104 )    |  | (888 )    |
| Other liabilities  | (1,755 )  |  | (2,640 )  |
| Net cash provided by operating activities  | 15,712    |  | 22,215    |
| Cash flows from investing activities:  |           |  |           |
| Acquisition cash purchase price, net of cash and cash equivalents acquired       | (23,376 ) |  | —         |
| Net decrease (increase) in loans   | 13,855    |  | (93,125 ) |
| Proceeds from the sale of securities, available for sale                         | 259,420   |  | 1,451     |
| Proceeds from the paydown or maturity of securities, available for sale          | 27,684    |  | 19,683    |

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|  |            |   |            |   |
|--|------------|---|------------|---|
| Proceeds from the paydown or maturity of securities held to maturity | 1,269      |   | 1,639      |   |
| Proceeds from the redemption of other investments                    | 11,744     |   | 13,514     |   |
| Proceeds from the sale of state tax credits held for sale            | 2,381      |   | 1,356      |   |
| Proceeds from the sale of other real estate                          | 66         |   | —          |   |
| Payments for the purchase/origination of:                            |            |   |            |   |
| Available for sale debt securities                                   | (221,711)  | ) | (40,313)   | ) |
| Other investments  | (14,977)   | ) | (17,864)   | ) |
| State tax credits held for sale                                      | (1,852)    | ) | —          | ) |
| Fixed assets, net  | (1,268)    | ) | (370)      | ) |
| Net cash provided by (used in) investing activities                  | 53,235     |   | (114,029)  | ) |
| Cash flows from financing activities:                                |            |   |            |   |
| Net decrease in noninterest-bearing deposit accounts                 | (83,290)   | ) | (22,202)   | ) |
| Net (increase) decrease in interest-bearing deposit accounts         | (48,770)   | ) | 147,165    | ) |
| Proceeds from Federal Home Loan Bank advances                        | 364,525    |   | 484,500    |   |
| Repayments of Federal Home Loan Bank advances                        | (259,500)  | ) | (432,500)  | ) |
| Proceeds from notes payable  | 40,000     |   | —          |   |
| Repayments of notes payable  | (2,000)    | ) | —          | ) |
| Net decrease in other borrowings                                     | (49,279)   | ) | (87,085)   | ) |
| Cash dividends paid on common stock                                  | (3,763)    | ) | (2,542)    | ) |
| Payments for the repurchase of common stock                          | —          |   | (3,058)    | ) |
| Payments for the issuance of equity instruments, net                 | (1,940)    | ) | (2,686)    | ) |
| Net cash (used in) provided by financing activities                  | (44,017)   | ) | 81,592     | ) |
| Net increase (decrease) in cash and cash equivalents                 | 24,930     |   | (10,222)   | ) |
| Cash and cash equivalents, beginning of period                       | 196,552    |   | 153,323    |   |
| Cash and cash equivalents, end of period                             | \$ 221,482 |   | \$ 143,101 |   |

Supplemental disclosures of  
cash flow information:

Cash paid during the period

for:

|          |    |        |    |       |
|----------|----|--------|----|-------|
| Interest | \$ | 14,020 | \$ | 8,677 |
|----------|----|--------|----|-------|

|              |   |  |     |  |
|--------------|---|--|-----|--|
| Income taxes | — |  | 685 |  |
|--------------|---|--|-----|--|

Noncash transactions:

|   |    |       |    |   |
|---|----|-------|----|---|
| Transfer to other real estate<br>owned in settlement of loans | \$ | 1,372 | \$ | — |
|---|----|-------|----|---|

|  |         |  |   |  |
|--|---------|--|---|--|
| Common shares issued in<br>connection with acquisition | 171,885 |  | — |  |
|--|---------|--|---|--|

The accompanying notes are an integral part of these consolidated financial statements.

5

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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 Arizona, Kansas, Missouri, and New Mexico markets through its banking subsidiary, Enterprise Bank & Trust (the “Bank”).

Operating results for the three months ended March 31, 2019 are not necessarily indicative of the results that may be expected for any other interim period or for the year ending December 31, 2019. 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, 2018, as filed with the Securities and Exchange Commission.

##### Basis of Financial Statement Presentation

The accompanying unaudited 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.

In the opinion of management, the consolidated financial statements contain all adjustments (consisting of normal recurring accruals) considered necessary for the fair presentation of the statements of financial position, results of operations, and cash flow for the interim periods.

##### Recently Adopted Accounting Pronouncements

During the first quarter of 2019, the Company adopted Accounting Standards Update (“ASU”) 2017-08, “Receivables - Nonrefundable Fees and Other Costs (Subtopic 310-20), Premium Amortization on Purchased Callable Debt Securities.” ASU 2017-08 shortens the amortization period of certain callable debt securities held at a premium to the earliest call date. The adoption of this update did not have a material effect on the Company's consolidated financial statements.

The Company adopted ASU 2016-02 “Leases (Topic 842)” using the optional transition method effective on January 1, 2019. ASU 2016-02 requires organizations that lease assets to recognize the assets and liabilities for the rights and obligations created by leases. The Company recorded \$15.5 million for right-to-use assets and \$16.2 million for lease liabilities related to operating leases. The Company elected the practical expedients package which eliminates (1) the need to reassess whether any expired or existing contracts are or contain a lease, (2) the need to reassess the lease classification, and (3) the need to reassess initial direct costs for any existing leases. The Company also elected an accounting policy to not recognize assets and liabilities on leases 12 months or less, and an accounting policy for equipment and real estate leases to not separate nonlease components because the impact was immaterial.

##### Acquisitions

Acquisitions and business combinations are accounted for using the acquisition method of accounting. The assets and liabilities of the acquired entities have been recorded at their estimated fair values at the date of acquisition. Goodwill

6

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represents the excess of the purchase price over the fair value of net assets acquired, including the amount assigned to identifiable intangible assets.

The purchase price allocation process requires an estimation of the fair values of the assets acquired and the liabilities assumed. When a business combination agreement provides for an adjustment to the cost of the combination contingent on future events, the Company includes an estimate of the acquisition-date fair value as part of the cost of the combination. To determine the fair values, the Company relies on third party valuations, such as appraisals, or internal valuations based on discounted cash flow analyses or other valuation techniques. The results of operations of the acquired business are included in the Company's consolidated financial statements from the date of acquisition. Merger related costs are costs the Company incurs to effect a business combination. The Company presents merger related expenses as a separate component of Noninterest expenses on the Condensed Consolidated Statements of Operations. Merger related expenses include costs directly related to merger or acquisition activity and include legal and professional fees, system consolidation and conversion costs, gain or loss on sale of investment securities incurred through repositioning the acquired investment portfolio, and compensation costs such as severance and retention incentives for employees impacted by acquisition activity. The Company accounts for merger-related costs as expenses in the periods in which the costs are incurred and the services are received.

## Revenue

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.

## Leases

We determine if an arrangement is a lease at inception. Operating leases are included in operating lease right-of-use ("ROU") assets on our consolidated balance sheet. ROU assets represent our right to use an underlying asset for the lease term and lease liabilities represent our obligation to make lease payments arising from the lease. Operating lease ROU assets and liabilities are recognized at commencement date based on the present value of lease payments over the lease term. We use our incremental borrowing rate based on the information available at commencement date in determining the present value of lease payments. The operating lease ROU asset also includes any lease payments made prior to commencement and excludes lease incentives. Our lease terms may include options to extend or terminate the lease when it is reasonably certain that we will exercise that option. Lease expense for lease payments is recognized on a straight-line basis over the lease term. We account for the lease and non-lease components as a single

lease component.

7

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Assumptions and judgments are used in applying ASC 842 and may include (1) the decision framework for identifying a lease, (2) the accounting policy election for equipment and real estate leases to not separate nonlease components, and (3) the discount rate for determining the initial present value of the lease payments which is based on information available at the commencement date for determining the lease term and assessing if optional periods are reasonably likely to be exercised. For the calculation at January 1, 2019, the discount rate was based on the remaining lease terms.

#### Derivative Instruments and Hedging Activities

FASB ASC 815, Derivatives and Hedging ("ASC 815"), provides the disclosure requirements for derivatives and hedging activities with the intent to provide users of financial statements with an enhanced understanding of: (a) how and why an entity uses derivative instruments, (b) how the entity accounts for derivative instruments and related hedged items, and (c) how derivative instruments and related hedged items affect an entity's financial position, financial performance, and cash flows. Further, qualitative disclosures are required that explain the Company's objectives and strategies for using derivatives, as well as quantitative disclosures about the fair value of and gains and losses on derivative instruments, and disclosures about credit-risk-related contingent features in derivative instruments.

As required by ASC 815, the Company records all derivatives on the balance sheet at fair value. The accounting for changes in the fair value of derivatives depends on the intended use of the derivative, whether the Company has elected to designate a derivative in a hedging relationship and apply hedge accounting and whether the hedging relationship has satisfied the criteria necessary to apply hedge accounting. Derivatives designated and qualifying as a hedge of the exposure to changes in the fair value of an asset, liability, or firm commitment attributable to a particular risk, such as interest rate risk, are considered fair value hedges. Derivatives designated and qualifying as a hedge of the exposure to variability in expected future cash flows, or other types of forecasted transactions, are considered cash flow hedges. Derivatives may also be designated as hedges of the foreign currency exposure of a net investment in a foreign operation. Hedge accounting generally provides for the matching of the timing of gain or loss recognition on the hedging instrument with the recognition of the changes in the fair value of the hedged asset or liability that are attributable to the hedged risk in a fair value hedge or the earnings effect of the hedged forecasted transactions in a cash flow hedge. The Company may enter into derivative contracts that are intended to economically hedge certain of its risk, even though hedge accounting does not apply, or the Company elects not to apply hedge accounting.

The Company does not offset derivative asset and liability positions. However, the Company's exposure to the credit risk of its derivative financial instruments is generally mitigated by master netting agreements with its counterparties.

The Alternative Reference Rates Committee ("ARRC") has proposed that the Secured Overnight Funding Rate ("SOFR") replace USD-LIBOR. ARRC has proposed that the transition to SOFR from USD-LIBOR will take place by the end of 2021. The Company has material contracts that are indexed to USD-LIBOR. Industry organizations are currently working on the transition plan. The Company is currently monitoring this activity and evaluating the risks involved.

## NOTE 2 - ACQUISITION

### Acquisition of Trinity Capital Corporation.

On March 8, 2019, the Company closed its acquisition of 100% of Trinity Capital Corporation (“Trinity”) and its wholly-owned subsidiary, Los Alamos National Bank (“LANB”). Trinity operated six full-service retail and commercial banking offices in Los Alamos, Santa Fe, and Albuquerque, New Mexico.

Trinity shareholders received cash consideration in an amount of \$1.84 per share of Trinity common stock and 0.1972 shares of EFSC common stock per share of Trinity common stock with cash in lieu of fractional shares. Aggregate consideration at closing was 4.0 million shares of EFSC common stock and \$37.3 million cash paid to Trinity shareholders. Based on EFSC’s closing stock price of \$43.07 on March 7, 2019, the overall transaction had a value of \$209.2 million. The Company also recognized \$7.3 million and \$1.3 million of merger related costs that were recorded in noninterest expense in the statement of operations for the three months ended March 31, 2019, and year ended December 31, 2018, respectively.

The acquisition of Trinity has been accounted for as a business combination using the acquisition method of accounting which requires assets acquired and liabilities assumed to be recognized at fair value as of the acquisition date. The estimates of fair value are preliminary and subject to refinement as the Company completes its evaluation of the acquired assets and liabilities. Goodwill of \$90.3 million arising from the acquisition consists largely of the synergies and economies of scale expected from combining the operations of Trinity into Enterprise. The goodwill is assigned as part of the Company’s Banking reporting unit. None of the goodwill recognized is expected to be deductible for income tax purposes.

The following table presents the assets acquired and liabilities assumed of Trinity as of March 8, 2019. The following information is presented on a provisional basis based upon all information available to the Company at the present time and is subject to change, and such changes could be material. The Company continues to review the underlying assumptions and valuation techniques utilized to calculate the fair value of certain definite-lived intangibles, loans, goodwill and deferred income taxes. Additional adjustments may be recorded during the allocation period specified by ASC 805 as additional information becomes known.

| (in thousands)                                 | As<br>Recorded<br>by TCC | Adjustments        | As<br>Recorded<br>by EFSC |
|--|--------------------------|--------------------|---------------------------|
| <b>Assets acquired:</b>                        |                          |                    |                           |
| Cash and cash equivalents                      | \$ 13,899                | \$ —               | \$ 13,899                 |
| Interest-earning deposits greater than 90 days | 100                      | —                  | 100                       |
| Securities                                     | 428,715                  | (414 )             | (a) 428,301               |
| Loans, net                                     | 705,057                  | (21,493 )          | (b) 683,564               |
| Other real estate                              | 5,284                    | (321 )             | (c) 4,963                 |
| Other investments                              | 6,673                    | —                  | 6,673                     |
| Fixed assets, net                              | 27,586                   | 500                | (d) 28,086                |
| Accrued interest receivable                    | 3,997                    | —                  | 3,997                     |
| Intangible assets                              | —                        | 23,333             | (e) 23,333                |
| Deferred tax assets                            | 10,708                   | 2                  | (f) 10,710                |
| Other assets                                   | 35,045                   | (2,947 )           | (g) 32,098                |
| <b>Total assets acquired</b>                   | <b>\$ 1,237,064</b>      | <b>\$ (1,340 )</b> | <b>\$ 1,235,724</b>       |
| <b>Liabilities assumed:</b>                    |                          |                    |                           |
| Deposits                                       | \$ 1,081,151             | \$ 36              | (h) \$ 1,081,187          |
| Subordinated debentures                        | 26,806                   | (4,325 )           | (i) 22,481                |
| Federal Home Loan Bank advances                | 6,800                    | 171                | (j) 6,971                 |
| Accrued interest payable                       | 370                      | —                  | 370                       |
| Other liabilities                              | 5,842                    | —                  | 5,842                     |
| <b>Total liabilities assumed</b>               | <b>\$ 1,120,969</b>      | <b>\$ (4,118 )</b> | <b>\$ 1,116,851</b>       |
| <b>Net assets acquired</b>                     | <b>\$ 116,095</b>        | <b>\$ 2,778</b>    | <b>\$ 118,873</b>         |
| <b>Consideration paid:</b>                     |                          |                    |                           |
| Cash   |                          |                    | \$ 37,276                 |
| Common stock                                   |                          |                    | 171,884                   |
| <b>Total consideration paid</b>                |                          |                    | <b>\$ 209,160</b>         |
| <b>Goodwill</b>                                |                          |                    | <b>\$ 90,287</b>          |

(a) Fair value adjustments of the securities portfolio as of the acquisition date.

(b) Fair value adjustments based on the Company's evaluation of the acquired loan portfolio, write-off of net deferred loan costs and elimination of the allowance for loan losses recorded by Trinity.

(c) Fair value adjustment based on the Company's evaluation of the acquired OREO portfolio.

(d) Fair value adjustments based on the Company's evaluation of the acquired premises and equipment.

(e) Recording of the core deposit intangible asset on the acquired core deposit accounts. Amount to be amortized using a sum of years digits method over a useful life of 10 years.

(f) Adjustment for deferred taxes at the acquisition date.

- (g) Fair value adjustment of other assets at the acquisition date.
- (h) Fair value adjustment to time deposits.
- (i) Fair value adjustment to the trust preferred securities at the acquisition date.
- (j) Fair value adjustment to the Federal Home Loan Bank borrowings.

10

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The following table provides the unaudited pro forma information for the results of operations for the three months ended March 31, 2019 and 2018, as if the acquisition had occurred on January 1, 2018. The pro forma results combine the historical results of Trinity with the Company's Consolidated Statements of Income, adjusted for the impact of the application of the acquisition method of accounting including loan discount accretion, intangible assets amortization, and deposit and trust preferred securities premium accretion, net of taxes. The pro forma results have been prepared for comparative purposes only and are not necessarily indicative of the results that would have been obtained had the acquisition actually occurred on January 1, 2018. No assumptions have been applied to the pro forma results of operations regarding possible revenue enhancements, expense efficiencies or asset dispositions. Only the acquisition related expenses that have been incurred as of March 31, 2019 are included in net income in the table below.

| (in thousands, except per share data)                        | Pro Forma<br>Three months<br>ended March 31, |          |
|--|--|----------|
|  | 2019   | 2018     |
| Total revenues (net interest income plus noninterest income) | \$71,983                                     | \$68,874 |
| Net income   | 23,100                                       | 15,009   |
| Diluted earnings per common share                            | 0.82   | 0.55     |

#### NOTE 3 - 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<br>ended<br>March 31, |          |
|--|------------------------------------|----------|
|  | 2019                               | 2018     |
| Net income as reported                             | \$16,156                           | \$20,921 |
| Weighted average common shares outstanding         | 23,927                             | 23,115   |
| Additional dilutive common stock equivalents       | 156                                | 172      |
| Weighted average diluted common shares outstanding | 24,083                             | 23,287   |
| Basic earnings per common share:                   | \$0.68                             | \$0.91   |
| Diluted earnings per common share:                 | 0.67                               | 0.90     |

For the three months ended March 31, 2019 and 2018, there were 122,270 and 0, respectively, common stock equivalents excluded from the earnings per share calculations because their effect would have been anti-dilutive.

## NOTE 4 - 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)                                       | March 31, 2019    |                        |                         |             |
|--|-------------------|------------------------|-------------------------|-------------|
|  | Amortized Cost    | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value  |
| Available for sale securities:                       |                   |                        |                         |             |
| Obligations of U.S. Government-sponsored enterprises | \$54,128          | \$ —                   | \$(347)                 | \$53,781    |
| Obligations of states and political subdivisions     | 114,770           | 2,218                  | (3)                     | 116,985     |
| Agency mortgage-backed securities                    | 895,899           | 6,461                  | (4,816)                 | 897,544     |
| U.S. Treasury bills                                  | 9,964             | 113                    | —                       | 10,077      |
| Corporate debt securities                            | 20,768            | 30                     | —                       | 20,798      |
| Total securities available for sale                  | \$1,095,529       | \$ 8,822               | \$(5,166)               | \$1,099,185 |
| Held to maturity securities:                         |                   |                        |                         |             |
| Obligations of states and political subdivisions     | \$12,490          | \$ 91                  | \$(20)                  | \$12,561    |
| Agency mortgage-backed securities                    | 51,878            | 11                     | (303)                   | 51,586      |
| Total securities held to maturity                    | \$64,368          | \$ 102                 | \$(323)                 | \$64,147    |
|  |                   |                        |                         |             |
| (in thousands)                                       | December 31, 2018 |                        |                         |             |
|  | Amortized Cost    | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value  |
| Available for sale securities:                       |                   |                        |                         |             |
| Obligations of U.S. Government-sponsored enterprises | \$99,926          | \$ —                   | \$(1,428)               | \$98,498    |
| Obligations of states and political subdivisions     | 26,566            | 327                    | (83)                    | 26,810      |
| Agency mortgage-backed securities                    | 596,825           | 1,160                  | (11,849)                | 586,136     |
| U.S. Treasury Bills                                  | \$9,962           | \$ —                   | \$(37)                  | \$9,925     |
| Total securities available for sale                  | \$733,279         | \$ 1,487               | \$(13,397)              | \$721,369   |
| Held to maturity securities:                         |                   |                        |                         |             |
| Obligations of states and political subdivisions     | \$12,506          | \$ 16                  | \$(114)                 | \$12,408    |
| Agency mortgage-backed securities                    | 53,173            | —                      | (1,647)                 | 51,526      |
| Total securities held to maturity                    | \$65,679          | \$ 16                  | \$(1,761)               | \$63,934    |

At March 31, 2019, and December 31, 2018, 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 \$478.8 million and \$433.7 million at March 31, 2019, and December 31, 2018, 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 March 31, 2019, by contractual maturity, are shown below. Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties. The weighted average life of the mortgage-backed securities is approximately 4 years.

| (in thousands)                         | Available for sale |                      | Held to maturity |                      |
|--|--------------------|----------------------|------------------|----------------------|
|  | Amortized Cost     | Estimated Fair Value | Amortized Cost   | Estimated Fair Value |
| Due in one year or less                | \$1,876            | \$1,888              | \$—              | \$—                  |
| Due after one year through five years  | 67,451             | 67,377               | 2,534            | 2,546                |
| Due after five years through ten years | 31,819             | 32,135               | 9,957            | 10,015               |
| Due after ten years                    | 98,484             | 100,241              | —                | —                    |
| Agency mortgage-backed securities      | 895,899            | 897,544              | 51,877           | 51,586               |
|  | \$1,095,529        | \$1,099,185          | \$64,368         | \$64,147             |

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

| (in thousands)                                       | March 31, 2019    |                   |            |                   |                  |                   |
|--|-------------------|-------------------|------------|-------------------|------------------|-------------------|
|  | Fair Value        | Unrealized Losses | Fair Value | Unrealized Losses | Total Fair Value | Unrealized Losses |
| Obligations of U.S. Government-sponsored enterprises | \$19,854          | \$ 95             | \$29,796   | \$ 252            | \$49,650         | \$ 347            |
| Obligations of states and political subdivisions     | 680               | 10                | 2,949      | 13                | 3,629            | 23                |
| Agency mortgage-backed securities                    | 47,506            | 685               | 326,319    | 4,434             | 373,825          | 5,119             |
|  | \$68,040          | \$ 790            | \$359,064  | \$ 4,699          | \$427,104        | \$ 5,489          |
| (in thousands)                                       | December 31, 2018 |                   |            |                   |                  |                   |
|  | Fair Value        | Unrealized Losses | Fair Value | Unrealized Losses | Total Fair Value | Unrealized Losses |
| Obligations of U.S. Government-sponsored enterprises | \$19,622          | \$ 322            | \$78,876   | \$ 1,106          | \$98,498         | \$ 1,428          |
| Obligations of states and political subdivisions     | 3,102             | 15                | 14,156     | 182               | 17,258           | 197               |
| Agency mortgage-backed securities                    | 87,357            | 2,211             | 389,770    | 11,285            | 477,127          | 13,496            |
| U.S. Treasury bills                                  | —                 | —                 | 9,925      | 37                | 9,925            | 37                |
|  | \$110,081         | \$ 2,548          | \$492,727  | \$ 12,610         | \$602,808        | \$ 15,158         |

The unrealized losses at both March 31, 2019, and December 31, 2018, 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 March 31, 2019, management performed its quarterly analysis of all securities with an unrealized loss and concluded no individual securities were other-than-temporarily impaired.



## NOTE 5 - LOANS

The loan portfolio is comprised of loans originated by the Company and loans 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)                        | March 31,<br>2019 | December 31,<br>2018 |
|---------------------------------------|-------------------|----------------------|
| Loans accounted for at amortized cost | \$4,894,574       | \$ 4,303,600         |
| Loans accounted for as PCI            | 122,503           | 46,401               |
| Total loans                           | \$5,017,077       | \$ 4,350,001         |

At March 31, 2019, loans acquired in the Trinity acquisition included \$602 million accounted for at amortized cost and \$80 million accounted for as PCI. These loans were recorded at fair value with no allowance for loan losses.

The table below shows the composition of the allowance for loan losses:

| (in thousands)                                      | March<br>31,<br>2019 | December<br>31, 2018 |
|---|----------------------|----------------------|
| Allowance for loans accounted for at amortized cost | \$41,945             | \$ 42,295            |
| Allowance for loans accounted for as PCI            | 1,150                | 1,181                |
| Total allowance for loan losses                     | \$43,095             | \$ 43,476            |

The following tables refer to loans accounted for at amortized cost.

Below is a summary of loans by category at March 31, 2019 and December 31, 2018:

| (in thousands)                      | March 31,<br>2019 | December 31,<br>2018 |
|-------------------------------------|-------------------|----------------------|
| Commercial and industrial           | \$2,209,437       | \$ 2,121,008         |
| Real estate:                        |                   |                      |
| Commercial - investor owned         | 1,144,868         | 843,728              |
| Commercial - owner occupied         | 647,198           | 604,498              |
| Construction and land development   | 358,884           | 330,097              |
| Residential                         | 416,731           | 298,944              |
| Total real estate loans             | 2,567,681         | 2,077,267            |
| Consumer and other                  | 119,368           | 107,351              |
| Loans, before unearned loan fees    | 4,896,486         | 4,305,626            |
| Unearned loan fees, net             | (1,912 )          | (2,026 )             |
| Loans, including unearned loan fees | \$4,894,574       | \$ 4,303,600         |

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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 March 31, 2019, and at December 31, 2018, 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, 2018                   | \$ 29,039                 | \$ 4,683             | \$ 4,239             | \$ 1,987                          | \$ 1,616                | \$ 731             | \$ 42,295    |
| Provision (provision reversal) for loan losses | 1,445                     | 769                  | (431)                | (252)                             | (288)                   | 233                | 1,476        |
| Losses charged off                             | (1,853)                   | (120)                | (36)                 | (45)                              | (67)                    | (129)              | (2,250)      |
| Recoveries                                     | 29                        | 7                    | 2                    | 9                                 | 364                     | 13                 | 424          |
| Balance at March 31, 2019                      | \$ 28,660                 | \$ 5,339             | \$ 3,774             | \$ 1,699                          | \$ 1,625                | \$ 848             | \$ 41,945    |
| (in thousands)                                 | Commercial and industrial | CRE - investor owned | CRE - owner occupied | Construction and land development | Residential real estate | Consumer and other | Total        |
| Balance March 31, 2019                         |                           |                      |                      |                                   |                         |                    |              |
| Allowance for loan losses - Ending balance:    |                           |                      |                      |                                   |                         |                    |              |
| Individually evaluated for impairment          | \$ 2,199                  | \$ 596               | \$ 119               | \$ —                              | \$ —                    | \$ —               | \$ 2,914     |
| Collectively evaluated for impairment          | 26,461                    | 4,743                | 3,655                | 1,699                             | 1,625                   | 848                | 39,031       |
| Total  | \$ 28,660                 | \$ 5,339             | \$ 3,774             | \$ 1,699                          | \$ 1,625                | \$ 848             | \$ 41,945    |
| Loans - Ending balance:                        |                           |                      |                      |                                   |                         |                    |              |
| Individually evaluated for impairment          | \$ 7,205                  | \$ 1,527             | \$ 2,296             | \$ —                              | \$ 408                  | \$ —               | \$ 11,436    |
| Collectively evaluated for impairment          | 2,202,232                 | 1,143,341            | 644,902              | 358,884                           | 416,323                 | 117,456            | 4,883,138    |
| Total  | \$ 2,209,437              | \$ 1,144,868         | \$ 647,198           | \$ 358,884                        | \$ 416,731              | \$ 117,456         | \$ 4,894,574 |
| Balance December 31, 2018                      |                           |                      |                      |                                   |                         |                    |              |
| Allowance for loan losses - Ending balance:    |                           |                      |                      |                                   |                         |                    |              |
| Individually evaluated for impairment          | \$ 4,266                  | \$ —                 | \$ 109               | \$ —                              | \$ 52                   | \$ 26              | \$ 4,453     |
| Collectively evaluated for impairment          | 24,773                    | 4,683                | 4,130                | 1,987                             | 1,564                   | 705                | 37,842       |
| Total  | \$ 29,039                 | \$ 4,683             | \$ 4,239             | \$ 1,987                          | \$ 1,616                | \$ 731             | \$ 42,295    |
| Loans - Ending balance:                        |                           |                      |                      |                                   |                         |                    |              |
| Individually evaluated for impairment          | \$ 12,950                 | \$ 398               | \$ 2,135             | \$ —                              | \$ 2,277                | \$ 311             | \$ 18,071    |
| Collectively evaluated for impairment          | 2,108,058                 | 843,330              | 602,363              | 330,097                           | 296,667                 | 105,014            | 4,285,529    |
| Total  | \$ 2,121,008              | \$ 843,728           | \$ 604,498           | \$ 330,097                        | \$ 298,944              | \$ 105,325         | \$ 4,303,600 |

A summary of nonperforming loans individually evaluated for impairment by category at March 31, 2019 and December 31, 2018, and the income recognized on impaired loans is as follows:

| (in thousands) | March 31, 2019     |                     |                     |                |                   |                  |
|----------------|--------------------|---------------------|---------------------|----------------|-------------------|------------------|
|                | Unpaid Contractual | Recorded Investment | Recorded Investment | Total Recorded | Related Allowance | Average Recorded |

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|                                   | Principal | With No   | With      | Investment |          | Investment |
|-----------------------------------|-----------|-----------|-----------|------------|----------|------------|
|                                   | Balance   | Allowance | Allowance |            |          |            |
| Commercial and industrial         | \$9,515   | \$ 2,168  | \$ 5,037  | \$ 7,205   | \$ 2,199 | \$ 7,855   |
| Real estate:                      |           |           |           |            |          |            |
| Commercial - investor owned       | 1,555     | 271       | 1,256     | 1,527      | 596      | 1,527      |
| Commercial - owner occupied       | 484       | 467       | —         | 467        | —        | 471        |
| Construction and land development | —         | —         | —         | —          | —        | —          |
| Residential                       | 409       | 408       | —         | 408        | —        | 408        |
| Consumer and other                | —         | —         | —         | —          | —        | —          |
| Total                             | \$11,963  | \$ 3,314  | \$ 6,293  | \$ 9,607   | \$ 2,795 | \$ 10,261  |

15

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| (in thousands)                    | December 31, 2018                    |                                       |                                    | Total Recorded Investment | Related Allowance | Average Recorded Investment |
|-----------------------------------|--------------------------------------|---------------------------------------|------------------------------------|---------------------------|-------------------|-----------------------------|
|                                   | Unpaid Contractual Principal Balance | Recorded Investment With No Allowance | Recorded Investment With Allowance |                           |                   |                             |
| Commercial and industrial         | \$21,893                             | \$ 3,294                              | \$ 9,656                           | \$ 12,950                 | \$ 4,266          | \$ 13,827                   |
| Real estate:                      |                                      |                                       |                                    |                           |                   |                             |
| Commercial - investor owned       | 553                                  | 398                                   | —                                  | 398                       | —                 | 277                         |
| Commercial - owner occupied       | 847                                  | 472                                   | 336                                | 808                       | 109               | 691                         |
| Construction and land development | —                                    | —                                     | —                                  | —                         | —                 | —                           |
| Residential                       | 2,425                                | 1,659                                 | 618                                | 2,277                     | 52                | 778                         |
| Consumer and other                | 329                                  | —                                     | 312                                | 312                       | 26                | —                           |
| Total                             | \$26,047                             | \$ 5,823                              | \$ 10,922                          | \$ 16,745                 | \$ 4,453          | \$ 15,573                   |

| (in thousands)   | Three months ended |       |
|--|--------------------|-------|
|  | March 31, 2019     | 2018  |
| Total interest income that would have been recognized under original terms | \$436              | \$534 |
| Total cash received and recognized as interest income on non-accrual loans | 62                 | 11    |
| Total interest income recognized on accruing, impaired loans               | 3                  | 11    |

The recorded investment in nonperforming loans by category at March 31, 2019 and December 31, 2018, is as follows:

| (in thousands)                    | March 31, 2019 |                           |         |
|-----------------------------------|----------------|---------------------------|---------|
|                                   | Non-accrual    | Restructured, non-accrual | Total   |
| Commercial and industrial         | \$7,094        | \$ 111                    | \$7,205 |
| Real estate:                      |                |                           |         |
| Commercial - investor owned       | 1,527          | —                         | 1,527   |
| Commercial - owner occupied       | 467            | —                         | 467     |
| Construction and land development | —              | —                         | —       |
| Residential                       | 328            | 80                        | 408     |
| Consumer and other                | —              | —                         | —       |
| Total                             | \$9,416        | \$ 191                    | \$9,607 |

  

| (in thousands)                    | December 31, 2018 |                           |          |
|-----------------------------------|-------------------|---------------------------|----------|
|                                   | Non-accrual       | Restructured, non-accrual | Total    |
| Commercial and industrial         | \$12,805          | \$ 145                    | \$12,950 |
| Real estate:                      |                   |                           |          |
| Commercial - investor owned       | 398               | —                         | 398      |
| Commercial - owner occupied       | 808               | —                         | 808      |
| Construction and land development | —                 | —                         | —        |
| Residential                       | 2,197             | 80                        | 2,277    |
| Consumer and other                | 312               | —                         | 312      |

|       |          |        |          |
|-------|----------|--------|----------|
| Total | \$16,520 | \$ 225 | \$16,745 |
|-------|----------|--------|----------|

There were no loans over 90 days past due and still accruing interest at March 31, 2019 and December 31, 2018.

16

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There were no portfolio loans restructured during the three months ended March 31, 2019 and 2018.

As of March 31, 2019, the Company had \$1.2 million in specific reserves allocated to \$4.7 million of loans that have been restructured. During the three months ended March 31, 2019 and 2018, there were no troubled debt restructurings that subsequently defaulted.

The aging of the recorded investment in past due loans by portfolio class and category at March 31, 2019 and December 31, 2018, is shown below.

| (in thousands)                    | March 31, 2019      |                          |                |             |             |
|-----------------------------------|---------------------|--------------------------|----------------|-------------|-------------|
|                                   | 30-89 Days Past Due | 90 or More Days Past Due | Total Past Due | Current     | Total       |
| Commercial and industrial         | \$22,062            | \$5,816                  | \$27,878       | \$2,181,559 | \$2,209,437 |
| Real estate:                      |                     |                          |                |             |             |
| Commercial - investor owned       | —                   | 1,527                    | 1,527          | 1,143,341   | 1,144,868   |
| Commercial - owner occupied       | 708                 | 229                      | 937            | 646,261     | 647,198     |
| Construction and land development | 98                  | —                        | 98             | 358,786     | 358,884     |
| Residential                       | 4,945               | 328                      | 5,273          | 411,458     | 416,731     |
| Consumer and other                | 69                  | —                        | 69             | 117,387     | 117,456     |
| Total                             | \$27,882            | \$7,900                  | \$35,782       | \$4,858,792 | \$4,894,574 |

| (in thousands)                    | December 31, 2018   |                          |                |             |             |
|-----------------------------------|---------------------|--------------------------|----------------|-------------|-------------|
|                                   | 30-89 Days Past Due | 90 or More Days Past Due | Total Past Due | Current     | Total       |
| Commercial and industrial         | \$66                | \$10,257                 | \$10,323       | \$2,110,685 | \$2,121,008 |
| Real estate:                      |                     |                          |                |             |             |
| Commercial - investor owned       | 529                 | 127                      | 656            | 843,072     | 843,728     |
| Commercial - owner occupied       | 292                 | 565                      | 857            | 603,641     | 604,498     |
| Construction and land development | 6                   | —                        | 6              | 330,091     | 330,097     |
| Residential                       | 709                 | 897                      | 1,606          | 297,338     | 298,944     |
| Consumer and other                | —                   | 312                      | 312            | 105,013     | 105,325     |
| Total                             | \$1,602             | \$12,158                 | \$13,760       | \$4,289,840 | \$4,303,600 |

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.

Grade 8 – Substandard credits 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 March 31, 2019, which is based upon the most recent analysis performed, and December 31, 2018, is as follows:

|                                   | March 31, 2019 |           |                    |             |
|-----------------------------------|----------------|-----------|--------------------|-------------|
| (in thousands)                    | Pass (1-6)     | Watch (7) | Classified (8 & 9) | Total       |
| Commercial and industrial         | \$1,991,293    | \$157,408 | \$60,736           | \$2,209,437 |
| Real estate:                      |                |           |                    |             |
| Commercial - investor owned       | 1,124,030      | 17,088    | 3,750              | 1,144,868   |
| Commercial - owner occupied       | 608,773        | 36,052    | 2,373              | 647,198     |
| Construction and land development | 354,835        | 3,984     | 65                 | 358,884     |
| Residential                       | 409,032        | 1,996     | 5,703              | 416,731     |
| Consumer and other                | 117,451        | 5         | —                  | 117,456     |
| Total                             | \$4,605,414    | \$216,533 | \$72,627           | \$4,894,574 |

|                                   | December 31, 2018 |           |                    |             |
|-----------------------------------|-------------------|-----------|--------------------|-------------|
| (in thousands)                    | Pass (1-6)        | Watch (7) | Classified (8 & 9) | Total       |
| Commercial and industrial         | \$1,927,782       | \$146,033 | \$47,193           | \$2,121,008 |
| Real estate:                      |                   |           |                    |             |
| Commercial - investor owned       | 823,128           | 15,083    | 5,517              | 843,728     |
| Commercial - owner occupied       | 563,003           | 31,834    | 9,661              | 604,498     |
| Construction and land development | 318,451           | 11,580    | 66                 | 330,097     |
| Residential                       | 287,802           | 4,232     | 6,910              | 298,944     |
| Consumer and other                | 105,007           | 6         | 312                | 105,325     |
| Total                             | \$4,025,173       | \$208,768 | \$69,659           | \$4,303,600 |

Below is a summary of PCI loans by category at March 31, 2019 which includes preliminary fair value adjustments related to the Trinity acquisition and December 31, 2018:

| (in thousands)                    | March 31, 2019                            |                               | December 31, 2018                         |                               |
|-----------------------------------|---|-------------------------------|---|-------------------------------|
|                                   | Weighted-Average Risk Rating <sup>1</sup> | Recorded Investment PCI Loans | Weighted-Average Risk Rating <sup>1</sup> | Recorded Investment PCI Loans |
| Commercial and industrial         | 4.75                                      | \$ 17,613                     | 6.09                                      | \$ 2,159                      |
| Real estate:                      |   |                               |   |                               |
| Commercial - investor owned       | 6.68                                      | 42,948                        | 7.19                                      | 23,939                        |
| Commercial - owner occupied       | 6.81                                      | 35,026                        | 7.39                                      | 9,669                         |
| Construction and land development | 6.16                                      | 10,481                        | 6.03                                      | 4,548                         |
| Residential                       | 6.20                                      | 16,171                        | 6.40                                      | 6,082                         |
| Total real estate loans           |   | 122,239                       |   | 46,397                        |
| Consumer and other                | 3.58                                      | 264                           | 2.18                                      | 4                             |
| Total                             |   | \$ 122,503                    |   | \$ 46,401                     |

<sup>1</sup>Risk 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 March 31, 2019 and December 31, 2018, is shown below:

| (in thousands)                    | March 31, 2019      |                          |                |           |           |
|-----------------------------------|---------------------|--------------------------|----------------|-----------|-----------|
|                                   | 30-89 Days Past Due | 90 or More Days Past Due | Total Past Due | Current   | Total     |
| Commercial and industrial         | \$945               | \$—                      | \$945          | \$16,668  | \$17,613  |
| Real estate:                      |                     |                          |                |           |           |
| Commercial - investor owned       | 1,580               | 1,868                    | 3,448          | 39,500    | 42,948    |
| Commercial - owner occupied       | 751                 | 6,358                    | 7,109          | 27,917    | 35,026    |
| Construction and land development | 152                 | 258                      | 410            | 10,071    | 10,481    |
| Residential                       | 1,648               | 849                      | 2,497          | 13,674    | 16,171    |
| Consumer and other                | —                   | —                        | —              | 264       | 264       |
| Total                             | \$5,076             | \$9,333                  | \$14,409       | \$108,094 | \$122,503 |

| (in thousands)                    | December 31, 2018   |                          |                |         |         |
|-----------------------------------|---------------------|--------------------------|----------------|---------|---------|
|                                   | 30-89 Days Past Due | 90 or More Days Past Due | Total Past Due | Current | Total   |
| Commercial and industrial         | \$—                 | \$—                      | \$—            | \$2,159 | \$2,159 |
| Real estate:                      |                     |                          |                |         |         |
| Commercial - investor owned       | 416                 | 88                       | 504            | 23,435  | 23,939  |
| Commercial - owner occupied       | 591                 | 6,279                    | 6,870          | 2,799   | 9,669   |
| Construction and land development | —                   | —                        | —              | 4,548   | 4,548   |
| Residential                       | 146                 | 37                       | 183            | 5,899   | 6,082   |

|                    |         |         |         |          |          |
|--------------------|---------|---------|---------|----------|----------|
| Consumer and other | —       | —       | —       | 4        | 4        |
| Total              | \$1,153 | \$6,404 | \$7,557 | \$38,844 | \$46,401 |

The following table is a roll forward of PCI loans, net of the allowance for loan losses, for the three months ended March 31, 2019 and 2018.

| (in thousands)  | Contractual<br>Cashflows | Non-accretable<br>Difference | Accretable<br>Yield | Carrying<br>Amount |
|---|--------------------------|------------------------------|---------------------|--------------------|
| Balance December 31, 2018   | \$ 73,157                | \$ 15,299                    | \$ 12,638           | \$ 45,220          |
| Acquisitions  | 120,713                  | 11,531                       | 28,520              | 80,662             |
| Principal reductions and interest payments                          | (10,033 )                | —                            | —                   | (10,033 )          |
| Accretion of loan discount  | —                        | —                            | (1,603 )            | 1,603              |
| Changes in contractual and expected cash flows due to remeasurement | 4,081                    | (6 )                         | 94                  | 3,993              |
| Reductions due to disposals   | (120 )                   | (28 )                        | —                   | (92 )              |
| Balance March 31, 2019  | \$ 187,798               | \$ 26,796                    | \$ 39,649           | \$ 121,353         |
| Balance December 31, 2017   | \$ 112,710               | \$ 29,005                    | \$ 13,962           | \$ 69,743          |
| Principal reductions and interest payments                          | (12,142 )                | —                            | —                   | (12,142 )          |
| Accretion of loan discount  | —                        | —                            | (1,755 )            | 1,755              |
| Changes in contractual and expected cash flows due to remeasurement | 2,863                    | —                            | —                   | 2,863              |
| Balance March 31, 2018  | \$ 103,431               | \$ 29,005                    | \$ 12,207           | \$ 62,219          |

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 \$151.1 million and \$64.7 million as of March 31, 2019, and December 31, 2018, respectively.

#### NOTE 6 - LEASES

The Company has banking and limited-service facilities, datacenters, and certain equipment leased under agreements. Most of the leases expire between 2019 and 2024 and include one or more renewal options of up to five years. One lease expires in 2030. All the leases are classified as operating leases.

| (in thousands)        | For the<br>three<br>months<br>ended<br>March<br>31,<br>2019 |
|-----------------------|---|
| Operating lease cost  | \$ 806  |
| Short-term lease cost | 35  |
| Less: sublease income | \$( 88 )  |
| Total lease cost      | \$ 753  |

Supplemental cash flow information related to leases was as follows:

| (in thousands) | For the<br>three<br>months<br>ended |
|----------------|-------------------------------------|
|----------------|-------------------------------------|

|  |        |
|--|--------|
|  | March  |
|  | 31,    |
|  | 2019   |
| Cash paid for amounts included in the measurement of lease liabilities |        |
| Payments on operating leases   | \$ 861 |

Supplemental balance sheet information related to leases was as follows:

|                                       |                   |
|---------------------------------------|-------------------|
|                                       | As of             |
| (in thousands)                        | March 31,<br>2019 |
| Operating lease right-of-use assets   | \$14,858          |
| Operating lease liabilities           | 15,462            |
| Operating leases                      |                   |
| Weighted average remaining lease term | 6 years           |
| Weighted average discount rate        | 3.0 %             |

Maturities of operating lease liabilities were as follows:

|   |          |
|---|----------|
| (in thousands)                              |          |
| Year  | Amount   |
| 2019  | \$2,378  |
| 2020  | 3,246    |
| 2021  | 3,272    |
| 2022  | 2,709    |
| 2023  | 2,106    |
| Thereafter                                  | 3,143    |
| Total operating lease liabilities, payments | 16,854   |
| Less: present value adjustment              | 1,392    |
| Operating lease liabilities                 | \$15,462 |

As of March 31, 2019, we have an operating lease amendment for the expansion of an existing facility that has not yet commenced. This amendment will commence in 2019 with a lease term of 8 years.

#### NOTE 7 - 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 March 31, 2019, the amount of unadvanced commitments on impaired loans was insignificant.

The contractual amounts of off-balance-sheet financial instruments as of March 31, 2019, and December 31, 2018, are as follows:

|                              |                   |                      |
|------------------------------|-------------------|----------------------|
| (in thousands)               | March 31,<br>2019 | December 31,<br>2018 |
| Commitments to extend credit | \$1,411,819       | \$1,344,687          |
| Letters of credit            | 53,645            | 44,665               |

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 March 31, 2019, and December 31, 2018, approximately \$122.1 million and \$68.5 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 March 31, 2019, and December 31, 2018.

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 March 31, 2019, the approximate remaining terms of standby letters of credit range from 1 month to 5 years.

#### 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 8 - DERIVATIVE FINANCIAL INSTRUMENTS

##### Risk Management Objective of Using Derivatives

The Company is exposed to certain risk arising from both its business operations and economic conditions. The Company principally manages its exposures to a wide variety of business and operational risks through management of its core business activities. The Company manages economic risks, including interest rate, liquidity, and credit risk primarily by managing the amount, sources, and duration of its assets and liabilities and the use of derivative financial instruments. Specifically, the Company enters into derivative financial instruments to manage exposures that arise from business activities that result in the receipt or payment of future known and uncertain cash amounts, the value of which are determined by interest rates. The Company's derivative financial instruments are used to manage differences in the amount, timing, and duration of the Company's known or expected cash receipts and its known or expected cash payments principally related to the Company's borrowings. The Company does not enter into derivative financial instruments for trading purposes.

##### Cash Flow Hedges of Interest Rate Risk

The Company's objectives in using interest rate derivatives are to add stability to interest expense and to manage its exposure to interest rate movements. To accomplish this objective, the Company primarily uses interest rate swaps as part of its interest rate risk management strategy. Interest rate swaps designated as cash flow hedges involve the receipt of variable amounts from a counterparty in exchange for the Company making fixed-rate payments over the life of the agreements without exchange of the underlying notional amount. During 2019, such derivatives were used to hedge the variable cash flows associated with existing variable-rate debt. These cash flow hedges swap variable 90 day LIBOR to a fixed rate of 2.62% on average for an average term of six years.



For derivatives designated and that qualify as cash flow hedges of interest rate risk, the gain or loss on the derivative is recorded in accumulated other comprehensive income and subsequently reclassified into interest expense in the same period(s) during which the hedged transaction affects earnings. Amounts reported in accumulated other comprehensive income related to derivatives will be reclassified to interest expense as interest payments are paid on

the Company's variable-rate debt. During the next twelve months, the Company estimates that an additional \$0.1 million will be reclassified as an increase to interest expense.

#### Non-designated Hedges

Derivatives not designated as hedges are not speculative and result from a service the Company provides to certain customers. The Company executes interest rate swaps with commercial banking customers to facilitate their respective risk management strategies. Those interest rate swaps are simultaneously hedged by offsetting derivatives that the Company executes with a third party, such that the Company minimizes its net risk exposure resulting from such transactions. As the interest rate derivatives associated with this program do not meet the strict hedge accounting requirements, changes in the fair value of both the customer derivatives and the offsetting derivatives are recognized directly in earnings as a component of other noninterest income.

The table below presents the fair value of the Company's derivative financial instruments as well as their classification on the Balance Sheet as of March 31, 2019 and December 31, 2018.

| (in thousands)                                    | Derivative Assets    |                        |                         |                        |            | Derivative Liabilities |            |                         |            |
|---|----------------------|------------------------|-------------------------|------------------------|------------|------------------------|------------|-------------------------|------------|
|   | As of March 31, 2019 |                        | As of December 31, 2018 |                        |            | As of March 31, 2019   |            | As of December 31, 2018 |            |
|   | Notional Amount      | Balance Sheet Location | Fair Value              | Balance Sheet Location | Fair Value | Balance Sheet Location | Fair Value | Balance Sheet Location  | Fair Value |
| Derivatives designated as hedging instruments     |                      |                        |                         |                        |            |                        |            |                         |            |
| Interest rate swap                                | \$61,962             | Other Assets           | \$—                     | Other Assets           | \$—        | Other Liabilities      | \$1,264    | Other Liabilities       | \$—        |
| Total   |                      |                        | \$—                     |                        | \$—        |                        | \$1,264    |                         | \$—        |
| Derivatives not designated as hedging instruments |                      |                        |                         |                        |            |                        |            |                         |            |
| Interest rate swap                                | \$523,017            | Other Assets           | \$5,277                 | Other Assets           | \$2,217    | Other Liabilities      | \$5,277    | Other Liabilities       | \$2,217    |
| Foreign exchange forward contracts                | 1,426                | Other Assets           | 1,426                   | Other Assets           | 806        | Other Liabilities      | 1,426      | Other Liabilities       | 806        |
| Total   |                      |                        | \$6,703                 |                        | \$3,023    |                        | \$6,703    |                         | \$3,023    |

The table below presents the effect of cash flow hedge accounting on Accumulated Other Comprehensive Income for the three months ended, March 31, 2019 and 2018.

| (in thousands)                                 | Derivatives in Subtopic 815-20 Hedging Relationships | Amount of Gain or (Loss) Recognized in OCI on Derivative | Location of Gain or (Loss) Recognized from Accumulated Other Comprehensive Income into Income | Amount of Gain or (Loss) Reclassified from Accumulated OCI into Income |
|--|--|--|---|--|
|  |  |  |   | March 31, 2019   |
|  |  |  |   | March 31, 2019   |
| Derivatives in Cash Flow Hedging Relationships |  |  |   |  |
|  | Interest rate swap                                   | \$ (1,264 )  | Interest Expense  | \$ —   |
|  | Total  | \$ (1,264 )  |   | \$ —   |



The table below presents a gross presentation, the effects of offsetting, and a net presentation of the Company's derivatives as of March 31, 2019 and December 31, 2018. The gross amounts of derivative assets or liabilities can be reconciled to the tabular disclosure of fair value. The tabular disclosure of fair value provides the location that derivative assets and liabilities are presented on the Balance Sheet.

As of March 31, 2019

| (in thousands)     | Assets                   |   |  | Gross Amounts Not Offset in the Statement of Financial Position |                              | Net Amount |
|--------------------|--------------------------|---|--|---|------------------------------|------------|
|                    | Gross Amounts Recognized | Gross Amounts Offset in the Statement of Financial Position | Net Amounts of Assets presented in the Statement of Financial Position | Financial Instruments   | Fair Value Collateral Posted |            |
| Interest rate swap | \$5,277                  | \$ —  | —\$ 5,277  | \$657   | \$ —                         | \$ 4,620   |

| (in thousands)                                 | Liabilities              |   |   | Gross Amounts Not Offset in the Statement of Financial Position |                              | Net Amount |
|--|--------------------------|---|---|---|------------------------------|------------|
|  | Gross Amounts Recognized | Gross Amounts Offset in the Statement of Financial Position | Net Amounts of Liabilities presented in the Statement of Financial Position | Financial Instruments   | Fair Value Collateral Posted |            |
| Interest rate swap                             | \$6,541                  | \$ —  | —\$ 6,541   | \$657   | \$ 5,216                     | \$ 668     |
| Securities sold under agreements to repurchase | 172,171                  | —   | 172,171   | —   | 172,171                      | —          |

As of December 31, 2018

| (in thousands) | Assets                   |   |                       | Gross Amounts Not Offset in the Statement of Financial Position |                              | Net Amount |
|----------------|--------------------------|---|-----------------------|---|------------------------------|------------|
|                | Gross Amounts Recognized | Gross Amounts Offset in the Statement of Financial Position | Net Amounts of Assets | Financial Instruments   | Fair Value Collateral Posted |            |



## NOTE 9 - 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 March 31, 2019 and December 31, 2018, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value:

| (in thousands)                                       | March 31, 2019   |   |   | Total Fair Value |
|--|--|---|---|------------------|
|  | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |                  |
| <b>Assets</b>  |  |   |   |                  |
| Securities available for sale                        |  |   |   |                  |
| Obligations of U.S. Government-sponsored enterprises | \$—  | \$53,781                                      | \$—                                       | —\$53,781        |
| Obligations of states and political subdivisions     | —  | 116,985                                       | —   | 116,985          |
| Agency mortgage-backed securities                    | —  | 897,544                                       | —   | 897,544          |
| U.S. Treasury bills                                  | —  | 10,077  | —   | 10,077           |
| Corporate debt securities                            | —  | 20,798  | —   | 20,798           |
| Total securities available for sale                  | —  | 1,099,185                                     | —   | 1,099,185        |
| Other investments                                    | 145  | —   | —   | 145              |
| Derivatives  | —  | 6,703   | —   | 6,703            |
| Total assets   | \$145  | \$1,105,888                                   | \$—                                       | —\$1,106,033     |
| <b>Liabilities</b>                                   |  |   |   |                  |
| Derivatives  | \$—  | \$7,967                                       | \$—                                       | —\$7,967         |
| Total liabilities                                    | \$—  | \$7,967                                       | \$—                                       | —\$7,967         |
| <b>December 31, 2018</b>                             |  |   |   |                  |
| (in thousands)                                       | December 31, 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) |                  |
| <b>Assets</b>  |  |   |   |                  |
| Securities available for sale                        |  |   |   |                  |
| Obligations of U.S. Government-sponsored enterprises | \$—  | \$98,498                                      | \$—                                       | —\$98,498        |

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|  |        |            |    |            |
|--|--------|------------|----|------------|
| Obligations of states and political subdivisions | —      | 26,810     | —  | 26,810     |
| Agency mortgage-backed securities                | —      | 586,136    | —  | 586,136    |
| U.S. Treasury bills                              | —      | 9,925      | —  | 9,925      |
| Total securities available for sale              | —      | 721,369    | —  | 721,369    |
| Other investments                                | 121    | —          | —  | 121        |
| Derivatives                                      | —      | 3,023      | —  | 3,023      |
| Total assets                                     | \$ 121 | \$ 724,392 | \$ | —\$724,513 |
| Liabilities                                      |        |            |    |            |
| Derivatives                                      | \$—    | \$ 3,023   | \$ | —\$3,023   |
| Total liabilities                                | \$—    | \$ 3,023   | \$ | —\$3,023   |

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. Changes in fair value are recognized through accumulated other comprehensive income.

Other investments. At March 31, 2019, of the \$34.9 million of other investments on the condensed consolidated balance sheet, approximately \$0.2 million was carried at fair value. The remaining \$34.7 million of other investments were accounted for at cost. Other investments reported at fair value represent equity securities with quoted market prices (Level 1). Changes in fair value are recognized in net income.

Derivatives. The Company uses interest rate swaps as part of its cash flow strategy to manage its interest rate risk. The valuation of these instruments is determined using widely accepted valuation techniques as discussed further below. The fair values of interest rate swaps are determined using the market standard methodology of netting the discounted future fixed cash receipts (or payments) and the discounted expected variable cash payments (or receipts). The variable cash payments (or receipts) are based on an expectation of future interest rates (forward curves) derived from observable market interest rate curves. This analysis reflects the contractual terms of the derivatives, including the period to maturity, and uses observable market-based inputs, including interest rate curves and implied volatilities. The estimates of fair value are made using a standardized methodology that nets the discounted expected future cash receipts and cash payments (based on observable market inputs). Derivatives are reported at fair value utilizing Level 2 inputs.

#### 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 March 31, 2019 and 2018.

|   | State tax<br>credits<br>held for<br>sale<br>Three<br>months<br>ended<br>March<br>31,<br>2018 |
|---|--|
| (in thousands)  |  |
| Beginning balance   | \$-\$400   |
| Total gains:  |  |
| Included in earnings  | —3   |
| Purchases, sales, issuances and settlements:  |  |
| Sales   | —(53 )   |
| Ending balance  | \$-\$350   |
| Change in unrealized gains (losses) relating to assets still held at the reporting date | \$-\$ (13 )  |

From time to time, the Company measures certain assets at fair value on a nonrecurring basis. These include assets measured at the lower of cost or fair value that were recognized at fair value below cost at the end of the period. There were no financial instruments and non-financial assets measured at fair value on a non-recurring basis as of March 31, 2019.





Following is a summary of the carrying amounts and fair values of the Company's financial instruments on the consolidated balance sheets at March 31, 2019 and December 31, 2018. Fair values that are not estimable are listed at the carrying value.

| (in thousands)                    | March 31, 2019  |                      | December 31, 2018 |                      |
|-----------------------------------|-----------------|----------------------|-------------------|----------------------|
|                                   | Carrying Amount | Estimated fair value | Carrying Amount   | Estimated fair value |
| <b>Balance sheet assets</b>       |                 |                      |                   |                      |
| Cash and due from banks           | \$85,578        | \$ 85,578            | \$91,511          | \$ 91,511            |
| Federal funds sold                | 1,934           | 1,934                | 1,714             | 1,714                |
| Interest-bearing deposits         | 137,455         | 137,455              | 106,512           | 106,512              |
| Securities available for sale     | 1,099,185       | 1,099,185            | 721,369           | 721,369              |
| Securities held to maturity       | 64,368          | 64,147               | 65,679            | 63,934               |
| Other investments, at cost        | 34,860          | 34,860               | 26,654            | 26,654               |
| Loans held for sale               | 654             | 654                  | 392               | 392                  |
| Derivative financial instruments  | 6,703           | 6,703                | 3,023             | 3,023                |
| Portfolio loans, net              | 4,973,982       | 4,920,761            | 4,306,525         | 4,253,239            |
| State tax credits, held for sale  | 37,215          | 39,355               | 37,587            | 39,169               |
| Accrued interest receivable       | 26,276          | 26,276               | 16,069            | 16,069               |
| <b>Balance sheet liabilities</b>  |                 |                      |                   |                      |
| Deposits                          | 5,537,115       | 5,532,053            | 4,587,985         | 4,583,047            |
| Subordinated debentures and notes | 140,668         | 131,634              | 118,156           | 106,316              |
| Federal Home Loan Bank advances   | 180,466         | 180,463              | 70,000            | 70,000               |
| Other borrowings                  | 212,171         | 212,026              | 223,450           | 223,260              |
| Derivative financial instruments  | 7,967           | 7,967                | 3,023             | 3,023                |
| Accrued interest payable          | 3,231           | 3,231                | 1,977             | 1,977                |

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, 2018, as filed with the Securities and Exchange Commission.

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 March 31, 2019, and December 31, 2018.

| (in thousands)                    | Estimated Fair Value                                 |           |         | Balance at<br>March 31,<br>2019 |
|-----------------------------------|--|-----------|---------|---------------------------------|
|                                   | Measurement at<br>Reporting Date Using<br>Level<br>1 | Level 2   | Level 3 |                                 |
| <b>Financial Assets:</b>          |  |           |         |                                 |
| Securities held to maturity       | \$-\$64,147  | \$        | —       | \$ 64,147                       |
| Portfolio loans, net              | —  | 4,920,761 |         | 4,920,761                       |
| State tax credits, held for sale  | —  | 39,355    |         | 39,355                          |
| <b>Financial Liabilities:</b>     |  |           |         |                                 |
| Deposits                          | 4,732,365  | 799,688   |         | 5,532,053                       |
| Subordinated debentures and notes | —131,634   | —         |         | 131,634                         |
| Federal Home Loan Bank advances   | —180,463   | —         |         | 180,463                         |
| Other borrowings                  | —212,026   | —         |         | 212,026                         |

| (in thousands)                    | Estimated Fair Value                                 |           |         | Balance at<br>December<br>31, 2018 |
|-----------------------------------|--|-----------|---------|------------------------------------|
|                                   | Measurement at<br>Reporting Date Using<br>Level<br>1 | Level 2   | Level 3 |                                    |
| <b>Financial Assets:</b>          |  |           |         |                                    |
| Securities held to maturity       | \$-\$63,934  | \$        | —       | \$ 63,934                          |
| Portfolio loans, net              | —  | 4,253,239 |         | 4,253,239                          |
| State tax credits, held for sale  | —  | 39,169    |         | 39,169                             |
| <b>Financial Liabilities:</b>     |  |           |         |                                    |
| Deposits                          | 3,903,556  | 679,491   |         | 4,583,047                          |
| Subordinated debentures and notes | —106,316   | —         |         | 106,316                            |
| Federal Home Loan Bank advances   | —70,000  | —         |         | 70,000                             |
| Other borrowings                  | —223,260   | —         |         | 223,260                            |

#### NOTE 10 - GOODWILL AND INTANGIBLE ASSETS

Goodwill increased \$90.3 million to \$207.6 million at March 31, 2019 from \$117.3 million at December 31, 2018 due to the acquisition of Trinity.

The table below presents a summary of intangible assets:

| (in thousands)   | For the<br>quarter<br>ended<br>March<br>31, 2019 |
|--|--|
| Gross core deposit intangible balance, beginning of period | \$20,574   |
| Additions  | 23,333   |
| Gross core deposit intangible, end of period               | 43,907   |

|   |           |
|---|-----------|
| Accumulated amortization                  | (12,859 ) |
| Core deposit intangible, net, end of year | \$31,048  |

Amortization expense on the core deposit intangibles was \$0.8 million and \$0.7 million for the quarters ended March 31, 2019 and 2018, respectively. The core deposit intangibles are being amortized over a 10 year period.

The following table reflects the expected amortization schedule for the core deposit intangible (in thousands) at March 31, 2019.

| Year       | Core<br>Deposit<br>Intangible |
|------------|-------------------------------|
| 2019       | \$ 4,745                      |
| 2020       | 5,652                         |
| 2021       | 4,854                         |
| 2022       | 4,120                         |
| 2023       | 3,486                         |
| After 2023 | 8,191                         |
|            | \$ 31,048                     |

#### NOTE 11 - SUBORDINATED DEBENTURES

The amounts and terms of each issuance of the Company's subordinated debentures at March 31, 2019 and December 31, 2018 were as follows:

| (in thousands)                 | Amount<br>March 31,<br>2019 | December<br>31, 2018 | Maturity Date      | Call Date          | Interest Rate              |
|--------------------------------|-----------------------------|----------------------|--------------------|--------------------|----------------------------|
| EFSC Clayco Statutory Trust I  | \$3,196                     | \$3,196              | December 17, 2033  | December 17, 2008  | Floats @ 3MO LIBOR + 2.85% |
| EFSC Capital Trust II          | 5,155                       | 5,155                | June 17, 2034      | June 17, 2009      | Floats @ 3MO LIBOR + 2.65% |
| EFSC Statutory Trust III       | 11,341                      | 11,341               | December 15, 2034  | December 15, 2009  | Floats @ 3MO LIBOR + 1.97% |
| EFSC Clayco Statutory Trust II | 4,124                       | 4,124                | September 15, 2035 | September 15, 2010 | Floats @ 3MO LIBOR + 1.83% |
| EFSC Statutory Trust IV        | 10,310                      | 10,310               | December 15, 2035  | December 15, 2010  | Floats @ 3MO LIBOR + 1.44% |
| EFSC Statutory Trust V         | 4,124                       | 4,124                | September 15, 2036 | September 15, 2011 | Floats @ 3MO LIBOR + 1.60% |
| EFSC Capital Trust VI          | 14,433                      | 14,433               | March 30, 2037     | March 30, 2012     | Floats @ 3MO LIBOR + 1.60% |
| EFSC Capital Trust VII         | 4,124                       | 4,124                | December 15, 2037  | December 15, 2012  | Floats @ 3MO LIBOR + 2.25% |
| JEFFCO Stat Trust I (1)        | 7,986                       | 8,019                | February 22, 2031  | February 22, 2011  | Fixed @ 10.20%             |
| JEFFCO Stat Trust II (1)       | 4,348                       | 4,335                | March 17, 2034     | March 17, 2009     | Floats @ 3MO LIBOR + 2.75% |
| Trinity Capital Trust III (1)  | 5,156                       | —                    | September 8, 2034  | September 8, 2009  | Floats @ 3MO LIBOR + 2.70% |
| Trinity Capital Trust IV (1)   | 9,921                       | —                    | November 23, 2035  | August 23, 2010    | Fixed @ 6.88%              |
| Trinity Capital Trust V (1)    | 7,422                       | —                    | December 15, 2036  | September 15, 2011 | Floats @ 3MO LIBOR + 1.65% |
|                                | 91,640                      | 69,161               |                    |                    |                            |

Total junior subordinated  
debentures

|  |                |                |                     |                     |  |
|--|----------------|----------------|---------------------|---------------------|--|
| Fixed-to-floating rate<br>subordinated notes       | 50,000         | 50,000         | November 1,<br>2026 | November 1,<br>2021 | Fixed @ 4.75% until<br>November 1, 2021, then floats<br>@ 3MO LIBOR + 3.387% |
| Debt issuance costs                                | (972           | ) (1,005       | )                   |                     |  |
| Total fixed-to-floating rate<br>subordinated notes | 49,028         | 48,995         |                     |                     |  |
| <br>Total subordinated<br>debentures and notes     | <br>\$ 140,668 | <br>\$ 118,156 |                     |                     |  |

(1) Purchase accounting adjustments are reflected in the balance and also impact the effective interest rate.

As part of the acquisition of Trinity, the Company acquired additional junior subordinated debentures issued by unconsolidated statutory trusts with a par value of \$26.8 million. The Company has assigned a preliminary fair value of \$22.5 million to these junior subordinated debentures.

NOTE 12 - NEW AUTHORITATIVE ACCOUNTING GUIDANCE

Financial Accounting Standards Board (the “FASB”) ASU 2018-15 “Intangibles—Goodwill and Other—Internal-Use Software (Subtopic 350-40): Customer’s Accounting for Fees Paid in a Cloud Computing Arrangement” In August 2018, the FASB issued ASU 2018-15, which amends ASC 350-402 to address a customer’s accounting for implementation costs incurred in a cloud computing arrangement (CCA) that is a service contract. ASU 2018-15 aligns the accounting for costs incurred to implement a CCA that is a service arrangement with the guidance on capitalizing costs associated with developing or obtaining internal-use software. Specifically, the ASU amends ASC 350 to include in its scope implementation costs of a CCA that is a service contract and clarifies that a customer should apply ASC 350-40 to determine which implementation costs should be capitalized in a CCA that is considered a service contract. The amendments are effective for public business entities for annual periods beginning after December 15, 2019, including interim periods within those annual periods, with early adoption being permitted. The Company is currently evaluating the new guidance and has not yet determined the impact this standard may have on its consolidated balance sheets.

FASB ASU 2018-13 “Fair Value Measurement (Topic 820): Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement” In August 2018, the FASB issued ASU 2018-13, which changes the fair value measurement disclosure requirements of ASC 820. The amendments in this ASU are the result of a broader disclosure project called FASB Concepts Statement, Conceptual Framework for Financial Reporting — Chapter 8: Notes to Financial Statements, which the Board finalized on August 28, 2018. The Board used the guidance in the Concepts Statement, including consideration of costs and benefits, to improve the effectiveness of ASC 820’s disclosure requirements. The amendments in this update are effective for all entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. The amendments on changes in unrealized gains and losses, the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements, and the narrative description of measurement uncertainty should be applied prospectively for only the most recent interim or annual period presented in the initial fiscal year of adoption. All other amendments should be applied retrospectively to all periods presented upon their effective date. Early adoption is permitted upon issuance of this update. An entity is permitted to early adopt any removed or modified disclosures upon issuance of this update and delay adoption of the additional disclosures until their effective date. The Company is currently evaluating the new guidance and has not yet determined the impact this standard may have on its consolidated financial statements.

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 assessed its data and system needs and has begun designing its financial models to estimate expected credit losses in accordance with the standard. Further development, testing and evaluation of said models is required to determine the impact that adoption of this standard will have on the Company’s financial statements.

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

### Forward Looking Statements

Some of the information in this Quarterly Report on Form 10-Q contains "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Forward-looking statements typically are identified with use of terms such as "may," "might," "will," "would," "should," "expect," "plan," "anticipate," "believe," "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" under Part 1, Item 1A of our 2018 Annual Report on 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](http://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 three months of 2019 compared to the financial condition as of December 31, 2018. In addition, this discussion summarizes the significant factors affecting the results of operations, liquidity and cash flows of the Company for the three months ended March 31, 2019, compared to the same periods in 2018. 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, 2018. Certain financial condition comparisons to the prior year and results of operations comparisons for the linked quarter are included for additional trend analysis.



## Executive Summary

The Company closed its acquisition of Trinity Capital Corporation (“Trinity”) on March 8, 2019. The results of operations of Trinity are included in our consolidated results since this date and, therefore, were not included for the linked quarter ended December 31, 2018 and prior year period. The following table presents the preliminary estimated fair values of assets acquired and liabilities assumed of Trinity as of March 8, 2019:

(in thousands)

## Assets acquired:

|  |              |
|--|--------------|
| Cash and cash equivalents                      | \$ 13,899    |
| Interest-earning deposits greater than 90 days | 100          |
| Securities                                     | 428,301      |
| Loans, net                                     | 683,564      |
| Other real estate                              | 4,963        |
| Other investments                              | 6,673        |
| Fixed assets, net                              | 28,086       |
| Accrued interest receivable                    | 3,997        |
| Intangible assets                              | 23,333       |
| Deferred tax assets                            | 10,710       |
| Other assets                                   | 32,098       |
| Total assets acquired                          | \$ 1,235,724 |

## Liabilities assumed:

|                           |              |
|---------------------------|--------------|
| Deposits                  | \$ 1,081,187 |
| Subordinated debentures   | 22,481       |
| FHLB advances             | 6,971        |
| Accrued interest payable  | 370          |
| Other liabilities         | 5,842        |
| Total liabilities assumed | \$ 1,116,851 |

|                     |            |
|---------------------|------------|
| Net assets acquired | \$ 118,873 |
|---------------------|------------|

## Consideration paid:

|                          |            |
|--------------------------|------------|
| Cash                     | \$ 37,276  |
| Common stock             | 171,884    |
| Total consideration paid | \$ 209,160 |

|          |           |
|----------|-----------|
| Goodwill | \$ 90,287 |
|----------|-----------|

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Below are highlights of our financial performance for the three months ended March 31, 2019, as compared to the linked quarter ended December 31, 2018, and prior year period.

| (in thousands, except per share data)                      | At or for the three months ended |              |           |   |
|--|----------------------------------|--------------|-----------|---|
|  | March 31,                        | December 31, | March 31, |   |
|  | 2019                             | 2018         | 2018      |   |
| <b>EARNINGS</b>  |                                  |              |           |   |
| Total interest income                                      | \$67,617                         | \$ 64,002    | \$55,164  |   |
| Total interest expense                                     | 15,274                           | 13,409       | 8,993     |   |
| Net interest income  | 52,343                           | 50,593       | 46,171    |   |
| Provision for portfolio loans                              | 1,476                            | 2,120        | 1,871     |   |
| Net interest income after provision for loan losses        | 50,867                           | 48,473       | 44,300    |   |
| Total noninterest income                                   | 9,230                            | 10,702       | 9,542     |   |
| Total noninterest expense                                  | 39,838                           | 30,747       | 29,143    |   |
| Income before income tax expense                           | 20,259                           | 28,428       | 24,699    |   |
| Income tax expense   | 4,103                            | 4,899        | 3,778     |   |
| Net income   | \$16,156                         | \$ 23,529    | \$20,921  |   |
|  |                                  |              |           |   |
| Basic earnings per share                                   | \$0.68                           | \$ 1.02      | \$0.91    |   |
| Diluted earnings per share                                 | 0.67                             | 1.02         | 0.90      |   |
|  |                                  |              |           |   |
| Return on average assets                                   | 1.10                             | % 1.69       | % 1.59    | % |
| Return on average common equity                            | 9.89                             | 15.61        | 15.31     |   |
| Return on average tangible common equity <sup>1</sup>      | 12.93                            | 19.79        | 19.92     |   |
| Net interest margin (tax equivalent)                       | 3.87                             | 3.94         | 3.80      |   |
| Core net interest margin <sup>1</sup>                      | 3.79                             | 3.77         | 3.74      |   |
| Efficiency ratio   | 64.70                            | 50.16        | 52.31     |   |
| Core efficiency ratio <sup>1</sup>                         | 54.06                            | 49.77        | 54.02     |   |
| Book value per common share                                | \$29.68                          | \$ 26.47     | \$24.02   |   |
| Tangible book value per common share <sup>1</sup>          | 20.80                            | 20.95        | 18.49     |   |
|  |                                  |              |           |   |
| <b>ASSET QUALITY</b>                                       |                                  |              |           |   |
| Net charge-offs (recoveries)                               | \$1,826                          | \$ 2,822     | \$(226 )  |   |
| Nonperforming loans  | 9,607                            | 16,745       | 15,582    |   |
| Classified assets  | 79,750                           | 70,126       | 77,195    |   |
| Nonperforming loans to total loans                         | 0.19                             | % 0.38       | % 0.37    | % |
| Nonperforming assets to total assets                       | 0.24                             | 0.30         | 0.30      |   |
| Allowance for loan losses to total loans                   | 0.86                             | 1.00         | 1.07      |   |
| Net charge-offs (recoveries) to average loans (annualized) | 0.16                             | 0.26         | (0.02 )   |   |

(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 three months ended March 31, 2019 compared to the three months ended March 31, 2018, the Company noted the following trends:

The Company reported net income of \$16.2 million, or \$0.67 per diluted share, for the three months ended March 31, 2019, compared to \$20.9 million, or \$0.90 per diluted share, for the same period in 2018. The earnings per share decrease of \$0.23 primarily resulted from \$7.3 million pretax (\$5.7 million after tax), or \$0.24 per diluted share, of merger-related expenses. The issuance of shares related to the merger increased



average diluted shares outstanding by 1,064,000 for the quarter ended March 31, 2019. The Company realized growth in its core net interest margin<sup>1</sup> of five basis points to 3.79% in the current quarter compared to 3.74% in the prior year quarter. Return on average assets (“ROAA”), return on average common equity (“ROAE”), and return on average tangible common equity<sup>1</sup> (“ROATCE”) were 1.10%, 9.89%, and 12.93%, respectively in the first quarter of 2019. The impact of merger-related expenses reduced ROAA, ROAE, and ROATCE<sup>1</sup> by 0.39%, 3.51% and 4.60%, respectively. Excluding merger-related expenses, the adjusted ROAA,<sup>1</sup> adjusted ROAE,<sup>1</sup> and adjusted ROATCE<sup>1</sup> were 1.49%, 13.40%, and 17.53%, respectively for the first quarter of 2019.

Net interest income for the first three months of 2019 increased \$6.2 million or 13%, from the prior year period. Loan growth and higher rates supported the increase in interest income over the prior year period along with the acquisition of Trinity contributing \$3.0 million.

Net interest margin for the first three months of 2019 increased seven basis points to 3.87% when compared to the prior year period of 3.80%. Core net interest margin,<sup>1</sup> which excludes incremental accretion on non-core acquired loans, increased five basis points to 3.79% for the first three months of 2019 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 three months of 2019 decreased \$0.3 million or (3)%, compared to the prior year period primarily due to income on the non-core acquired portfolio that was not repeated in the current quarter, partially offset by organic growth in card services and contributions from Trinity of approximately \$0.6 million, primarily related to wealth management and card services revenue.

Noninterest expense was \$39.8 million for the three months ended March 31, 2019, compared to \$29.1 million for the comparable period in 2018. The increase from the prior year period was primarily due to merger-related expenses of \$7.3 million, and increased operating expenses since the closing of the Trinity acquisition, most notably in employee compensation and benefits, and data processing.

#### Balance sheet highlights:

Loans – Total loans increased to \$5.0 billion at March 31, 2019, increasing \$667 million when compared to December 31, 2018. The increase is primarily attributable to the acquisition of Trinity along with growth in the commercial and industrial (“C&I”), commercial real estate (“CRE”), and life insurance premium finance categories, partially offset by paydowns outpacing growth in the other categories.

Deposits – Total deposits at March 31, 2019 were \$5.5 billion, an increase of \$949 million, from December 31, 2018. The increase is primarily attributable to the acquisition of Trinity, partially offset by normal seasonal reductions with some of our corporate clients. Core deposits, defined as total deposits excluding time deposits, were \$4.7 billion at March 31, 2019, an increase of \$829 million, or 21% when compared to December 31, 2018.

Asset quality – Nonperforming loans were \$9.6 million at March 31, 2019, compared to \$16.7 million at December 31, 2018. Nonperforming loans represented 0.19% and 0.38% of total loans at March 31, 2019 and December 31, 2018, respectively.

Provision for portfolio loan losses was \$1.5 million for the three months ended March 31, 2019, compared to \$1.9 million for the three months ended March 31, 2018. See “Item 1, Note 5 – Portfolio Loans, and Provision and Allowance for Loan Losses” in this section for more information.

## 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. 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. Averages for the three months ended March 31, 2019 only reflect the Trinity acquired balances effective as of March 8, 2019, which increased average earning assets \$283 million.

| (in thousands)  | Three months ended March 31,<br>2019 |                            |                           | 2018               |                            |                           |
|---|--------------------------------------|----------------------------|---------------------------|--------------------|----------------------------|---------------------------|
|   | Average<br>Balance                   | Interest<br>Income/Expense | Average<br>Yield/<br>Rate | Average<br>Balance | Interest<br>Income/Expense | Average<br>Yield/<br>Rate |
| <b>Assets</b>   |                                      |                            |                           |                    |                            |                           |
| <b>Interest-earning assets:</b>                           |                                      |                            |                           |                    |                            |                           |
| Taxable portfolio loans (1)                               | \$4,468,412                          | \$ 59,227                  | 5.38 %                    | \$4,072,639        | \$ 48,891                  | 4.87 %                    |
| Tax-exempt portfolio loans (2)                            | 28,021                               | 424                        | 6.14                      | 37,206             | 489                        | 5.33                      |
| Non-core acquired loans - contractual                     | 14,954                               | 322                        | 8.73                      | 29,125             | 426                        | 5.93                      |
| Non-core acquired loans - incremental accretion           |                                      | 1,157                      | 31.37                     |                    | 766                        | 10.67                     |
| Total loans   | 4,511,387                            | 61,130                     | 5.50                      | 4,138,970          | 50,572                     | 4.96                      |
| Taxable investments in debt and equity securities         | 831,627                              | 5,698                      | 2.78                      | 698,459            | 4,192                      | 2.43                      |
| Non-taxable investments in debt and equity securities (2) | 65,309                               | 594                        | 3.69                      | 42,128             | 375                        | 3.61                      |
| Short-term investments                                    | 102,166                              | 447                        | 1.77                      | 69,318             | 240                        | 1.40                      |
| Total securities and short-term investments               | 999,102                              | 6,739                      | 2.74                      | 809,905            | 4,807                      | 2.41                      |
| Total interest-earning assets                             | 5,510,489                            | 67,869                     | 4.99                      | 4,948,875          | 55,379                     | 4.54                      |
| <b>Noninterest-earning assets:</b>                        |                                      |                            |                           |                    |                            |                           |
| Cash and due from banks                                   | 80,991                               |                            |                           | 88,630             |                            |                           |
| Other assets  | 408,195                              |                            |                           | 346,376            |                            |                           |
| Allowance for loan losses                                 | (43,589 )                            |                            |                           | (43,769 )          |                            |                           |
| Total assets  | \$5,956,086                          |                            |                           | \$5,340,112        |                            |                           |
| <b>Liabilities and Shareholders' Equity</b>               |                                      |                            |                           |                    |                            |                           |
| <b>Interest-bearing liabilities:</b>                      |                                      |                            |                           |                    |                            |                           |
| Interest-bearing transaction accounts                     | \$1,077,289                          | \$ 1,790                   | 0.67 %                    | \$862,912          | \$ 806                     | 0.38 %                    |
| Money market accounts                                     | 1,521,878                            | 6,515                      | 1.74                      | 1,391,055          | 3,353                      | 0.98                      |
| Savings   | 299,731                              | 183                        | 0.25                      | 201,852            | 125                        | 0.25                      |
| Certificates of deposit                                   | 712,269                              | 3,332                      | 1.90                      | 603,736            | 1,899                      | 1.28                      |
| Total interest-bearing deposits                           | 3,611,167                            | 11,820                     | 1.33                      | 3,059,555          | 6,183                      | 0.82                      |
| Subordinated debentures                                   | 124,154                              | 1,648                      | 5.38                      | 118,110            | 1,368                      | 4.70                      |
| FHLB advances   | 215,420                              | 1,398                      | 2.63                      | 302,548            | 1,258                      | 1.69                      |
| Other borrowed funds                                      | 202,197                              | 408                        | 0.82                      | 207,442            | 184                        | 0.36                      |
| Total interest-bearing liabilities                        | 4,152,938                            | 15,274                     | 1.49                      | 3,687,655          | 8,993                      | 0.99                      |
| <b>Noninterest bearing liabilities:</b>                   |                                      |                            |                           |                    |                            |                           |
| Demand deposits   | 1,088,323                            |                            |                           | 1,064,771          |                            |                           |
| Other liabilities   | 52,371                               |                            |                           | 33,620             |                            |                           |
| Total liabilities   | 5,293,632                            |                            |                           | 4,786,046          |                            |                           |

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|  |             |             |           |
|--|-------------|-------------|-----------|
| Shareholders' equity                     | 662,454     | 554,066     |           |
| Total liabilities & shareholders' equity | \$5,956,086 | \$5,340,112 |           |
| Net interest income                      | \$ 52,595   |             | \$ 46,386 |
| Net interest spread                      |             | 3.50 %      | 3.55 %    |
| Net interest margin                      |             | 3.87 %      | 3.80 %    |
| Core net interest margin (3)             |             | 3.79 %      | 3.74 %    |

(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 \$1.1 million and \$1.0 million for the three months ended March 31, 2019 and 2018 respectively.

(2) Non-taxable income is presented on a tax-equivalent basis using a 24.7% tax rate in 2019 and 2018. The tax-equivalent adjustments were \$0.3 million and \$0.2 million for the three months ended March 31, 2019 and 2018, 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)  | 2019 compared to 2018      |         |          |
|---|----------------------------|---------|----------|
|   | Three months ended         |         |          |
|   | March 31,                  |         |          |
|   | Increase (decrease) due to |         |          |
|   | Volume(1)                  | Rate(2) | Net      |
| Interest earned on:                                       |                            |         |          |
| Taxable loans   | \$4,975                    | \$5,361 | \$10,336 |
| Tax-exempt loans (3)                                      | (132 )                     | 67      | (65 )    |
| Non-core acquired loans                                   | (790 )                     | 1,077   | 287      |
| Taxable investments in debt and equity securities         | 858                        | 648     | 1,506    |
| Non-taxable investments in debt and equity securities (3) | 211                        | 8       | 219      |
| Short-term investments                                    | 133                        | 74      | 207      |
| Total interest-earning assets                             | \$5,255                    | \$7,235 | \$12,490 |
| Interest paid on:   |                            |         |          |
| Interest-bearing transaction accounts                     | \$242                      | \$742   | \$984    |
| Money market accounts                                     | 342                        | 2,820   | 3,162    |
| Savings   | 58                         | —       | 58       |
| Certificates of deposit                                   | 388                        | 1,045   | 1,433    |
| Subordinated debentures                                   | 73                         | 207     | 280      |
| FHLB advances   | (431 )                     | 571     | 140      |
| Borrowed funds  | (5 )                       | 229     | 224      |
| Total interest-bearing liabilities                        | 667                        | 5,614   | 6,281    |
| Net interest income                                       | \$4,588                    | \$1,621 | \$6,209  |

(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 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 \$52.6 million for the three months ended March 31, 2019, compared to \$46.4 million for the same period of 2018, an increase of \$6.2 million, or 13%. The tax-equivalent net interest margin was 3.87% for the first quarter of 2019, compared to 3.80% in the first quarter of 2018. Loan growth and higher rates supported the \$6.2 million increase in interest income over the prior year period along with the acquisition of Trinity which contributed \$3.0 million. The yield on taxable portfolio loans increased 51 basis points from the prior year period to 5.38% for the three months ended March 31, 2019, due to increasing interest rates on the existing variable-rate loan portfolio and higher rates on newly originated loans.

Core net interest margin<sup>1</sup> increased five basis points to 3.79% during the current quarter compared to 3.74% for the prior year period. This increase was primarily due to the impact of interest rate increases on the Company's asset sensitive balance sheet. Specifically, the yield on taxable portfolio loans increased 51 basis points to 5.38% from 4.87% due to the effect of rising interest rates on the existing variable-rate loan portfolio and higher rates on newly originated loans. The cost of total interest-bearing liabilities increased 50 basis points to 1.49% for the quarter ended March 31, 2019 from 0.99% for the prior year quarter. The increase in the interest rate paid on deposits reflects market

interest rate trends, as the Company continues to defend existing and attract new core deposit relationships.



The Company continues to manage its balance sheet to grow net interest income and expects to maintain core net interest margin<sup>1</sup> over the coming quarters; however, pressure on funding costs could negate the expected trends in core net interest margin.<sup>1</sup>

<sup>1</sup>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

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

| (in thousands)                        | Three months ended March 31, |         |                        |       |
|---------------------------------------|------------------------------|---------|------------------------|-------|
|                                       | 2019                         | 2018    | Increase<br>(decrease) |       |
| Service charges on deposit accounts   | \$2,935                      | \$2,851 | \$84                   | 3 %   |
| Wealth management revenue             | 1,992                        | 2,114   | (122)                  | (6)%  |
| Card services revenue                 | 1,790                        | 1,516   | 274                    | 18 %  |
| Gain on sale of other real estate     | 66                           | —       | 66                     | NM    |
| Tax credit activity, net              | 158                          | 252     | (94)                   | (37)% |
| Gain on sale of investment securities | —                            | —       | —                      | NM    |
| Miscellaneous income                  | 2,289                        | 2,809   | (520)                  | (19)% |
| Total noninterest income              | \$9,230                      | \$9,542 | \$(312)                | (3)%  |

(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 decreased \$0.3 million, or 3% in the first three months of 2019 compared to the same period in 2018. During the three months ended March 31, 2019, reductions in wealth management and in other income on the non-core acquired portfolio which was not repeated in the current quarter were offset by contributions from Trinity of approximately \$0.6 million, primarily related to wealth management and card services revenue. The acquisition of Trinity added \$406 million of assets under management.

The Company expects growth in noninterest income of a high single digit percentage for 2019 over 2018 levels, exclusive of the impact of the Trinity acquisition.

## 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 March 31, |          |                        |        |
|--|------------------------------|----------|------------------------|--------|
|  | 2019                         | 2018     | Increase<br>(decrease) |        |
| Employee compensation and benefits       | \$19,352                     | \$16,491 | \$2,861                | 17 %   |
| Occupancy                                | 2,637                        | 2,406    | 231                    | 10 %   |
| Data processing                          | 1,906                        | 1,467    | 439                    | 30 %   |
| Professional fees                        | 746                          | 849      | (103 )                 | (12)%  |
| FDIC and other insurance                 | 848                          | 917      | (69 )                  | (8 )%  |
| Loan legal and other real estate expense | 482                          | 299      | 183                    | 61 %   |
| Merger related expenses                  | 7,270                        | —        | 7,270                  | — %    |
| Other                                    | 6,597                        | 6,714    | (117 )                 | (2 )%  |
| Total noninterest expense                | \$39,838                     | \$29,143 | \$10,695               | 37 %   |
| Efficiency ratio                         | 64.70                        | % 52.31  | % 12.39                | % 24 % |
| Core efficiency ratio <sup>1</sup>       | 54.06                        | % 54.02  | % 0.04                 | % — %  |

<sup>1</sup>A non-GAAP measure. A reconciliation has been included in this MD&A section under the caption “Use of Non-GAAP Financial Measures.”

Noninterest expense was \$39.8 million for the three months ended March 31, 2019, compared to \$29.1 million for the three months ended March 31, 2018. The increase from the prior year period was primarily due to merger-related expenses of \$7.3 million, and increased operating expenses since the closing of the Trinity acquisition, most notably in employee compensation and benefits, and data processing.

The Company’s core efficiency ratio remained consistent at 54.1% for the three months ended March 31, 2019, compared to 54.0% for the prior year period even with the increase in operating expenses occurring since the acquisition of Trinity. These elevated expenses are expected to continue through the second quarter until the LANB systems are converted. Efficiency improvements are expected to occur in the second half of 2019 resulting in expense growth at a rate of 35% - 45% of projected revenue growth for 2019, and continued improvements to the Company’s efficiency ratio.

## Income Taxes

The Company’s income tax expense for the three months ended March 31, 2019, which includes both federal and state taxes, was \$4.1 million compared to \$3.8 million for the prior year period in 2018. The Company’s effective tax rate was 20.3% for the three months ended March 31, 2019 compared to 15.3% for the same period in 2018 due to several components. Excess tax benefits from the vesting of stock-based compensation were more favorable in the prior year quarter due to variability in cost basis of vesting awards. The nondeductible merger-related expenses in the current quarter increased income tax expense. Finally, timing of purchases of tax credit investments resulted in additional tax benefits in the prior year quarter. The Company is currently evaluating additional tax credit investment opportunities which are expected to have a positive impact in 2019.

The Company expects its effective tax rate for the remainder of 2019 to be approximately 18% - 20%.



## Summary Balance Sheet

| (in thousands)                  | March 31, December 31, Increase |            | (decrease) |        |
|---------------------------------|---------------------------------|------------|------------|--------|
|                                 | 2019                            | 2018       |            |        |
| Total cash and cash equivalents | \$ 221,482                      | \$ 196,552 | \$ 24,930  | 12.7 % |
| Securities                      | 1,163,553                       | 787,048    | 376,505    | 47.8 % |
| Loans held for investment       | 5,017,077                       | 4,190,845  | 826,232    | 19.7 % |
| Total assets                    | 6,932,757                       | 5,645,662  | 1,287,095  | 22.8 % |
| Deposits                        | 5,537,113                       | 4,587,985  | 949,128    | 20.7 % |
| Total liabilities               | 6,134,922                       | 5,041,858  | 1,093,064  | 21.7 % |
| Total shareholders' equity      | 797,835                         | 603,804    | 194,031    | 32.1 % |

## 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)                          | March 31, December 31, Increase |              | (decrease) |        |
|---|---------------------------------|--------------|------------|--------|
|   | 2019                            | 2018         |            |        |
| Commercial and industrial               | \$ 2,227,050                    | \$ 2,123,167 | \$ 103,883 | 4.9 %  |
| Commercial real estate - investor owned | 1,187,816                       | 867,667      | 320,149    | 36.9 % |
| Commercial real estate - owner occupied | 682,224                         | 614,167      | 68,057     | 11.1 % |
| Construction and land development       | 369,365                         | 334,645      | 34,720     | 10.4 % |
| Residential real estate                 | 432,902                         | 305,026      | 127,876    | 41.9 % |
| Consumer and other                      | 117,720                         | 105,329      | 12,391     | 11.8 % |
| Loans held for investment               | \$ 5,017,077                    | \$ 4,350,001 | \$ 667,076 | 15.3 % |

Loans grew by \$667 million to \$5.0 billion at March 31, 2019, when compared to December 31, 2018. The increase is primarily attributable to the acquisition of Trinity along with growth in the C&I, CRE, and life insurance premium finance categories, partially offset by paydowns outpacing growth in the other categories. We expect continued loan growth in 2019 to be a high single digit percentage, excluding acquired loans.

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

| (in thousands)                                | At the quarter ended |                      | Increase (decrease) |         |
|---|----------------------|----------------------|---------------------|---------|
|   | March 31,<br>2019    | December 31,<br>2018 |                     |         |
| C&I - general                                 | \$ 1,128,755         | \$ 995,491           | \$ 133,264          | 13.4 %  |
| CRE investor owned - general                  | 1,183,471            | 862,423              | 321,048             | 37.2 %  |
| CRE owner occupied - general                  | 576,026              | 496,835              | 79,191              | 15.9 %  |
| Enterprise value lending <sup>1</sup>         | 439,500              | 465,992              | (26,492 )           | (5.7 )% |
| Life insurance premium financing <sup>1</sup> | 440,693              | 417,950              | 22,743              | 5.4 %   |
| Residential real estate - general             | 432,556              | 304,671              | 127,885             | 42.0 %  |
| Construction and land development - general   | 345,207              | 310,832              | 34,375              | 11.1 %  |
| Tax credits <sup>1</sup>                      | 235,454              | 262,735              | (27,281 )           | (10.4)% |
| Agriculture <sup>1</sup>                      | 126,088              | 136,188              | (10,100 )           | (7.4 )% |
| Consumer and other - general                  | 109,327              | 96,884               | 12,443              | 12.8 %  |
| Total loans                                   | \$ 5,017,077         | \$ 4,350,001         | \$ 667,076          | 15.3 %  |

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

<sup>1</sup>Specialized 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 loan growth, coupled with typically fixed-rate CRE lending, supports management's efforts to maintain a flexible asset sensitive interest rate risk position. C&I loans increased \$104 million during the first three months of 2019 and represented 44% of the Company's loan portfolio at March 31, 2019. We expect continued loan growth in 2019 to be a high single digit percentage, excluding acquired loans.

## 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 |             |
|---|--------------------|-------------|
|   | March 31,          |             |
|   | 2019               | 2018        |
| Allowance at beginning of period, for portfolio loans                 | \$42,295           | \$38,166    |
| Loans charged off:  |                    |             |
| Commercial and industrial   | (1,853 )           | (732 )      |
| Real estate:  |                    |             |
| Commercial  | (156 )             | —           |
| Construction and land development                                     | (45 )              | —           |
| Residential   | (67 )              | (254 )      |
| Consumer and other  | (129 )             | (49 )       |
| Total loans charged off   | (2,250 )           | (1,035 )    |
| Recoveries of loans previously charged off:                           |                    |             |
| Commercial and industrial   | 29                 | 956         |
| Real estate:  |                    |             |
| Commercial  | 9                  | 12          |
| Construction and land development                                     | 9                  | 206         |
| Residential   | 364                | 73          |
| Consumer and other  | 13                 | 14          |
| Total recoveries of loans   | 424                | 1,261       |
| Net loan charge-offs  | (1,826 )           | 226         |
| Provision for loan losses   | 1,476              | 1,871       |
| Allowance at end of period, for portfolio loans                       | \$41,945           | \$40,263    |
| Allowance at beginning of period, for purchased credit impaired loans | \$1,181            | \$4,411     |
| Loans charged off   | —                  | —           |
| Recoveries of loans   | —                  | —           |
| Net loan charge-offs  | —                  | —           |
| Other   | (31 )              | (24 )       |
| Allowance at end of period, for purchased credit impaired loans       | \$1,150            | \$4,387     |
| Total allowance at end of period                                      | \$43,095           | \$44,650    |
| Portfolio loans, average  | \$4,496,125        | \$4,108,400 |
| Total loans, average  | 4,511,079          | 4,137,525   |
| Total loans, ending   | 5,017,077          | 4,190,845   |
| Net charge-offs (recoveries) to average loans                         | 0.16               | % (0.02 )%  |
| Allowance for loan losses to total loans                              | 0.86               | % 1.07 %    |

The provision for loan losses on portfolio loans for the three months ended March 31, 2019 was \$1.5 million, compared to \$1.9 million for same period in 2018. The provision is reflective of charge-offs in the period and maintaining a prudent credit risk posture.

The allowance for loan losses on portfolio loans was 0.86% of portfolio loans at March 31, 2019, compared to 1.07% at March 31, 2018. The decrease in the ratio of allowance for loan losses to total loans was primarily due to the



acquisition of Trinity loans that were recorded at fair value and do not have a corresponding allowance for loan losses. The Company has recorded a preliminary credit mark on the Trinity loan portfolio of \$24.3 million at March 31, 2019. 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)   | March 31,<br>2019 | December 31,<br>2018 | March 31,<br>2018 |   |
|--|-------------------|----------------------|-------------------|---|
| Non-accrual loans  | \$9,416           | \$16,520             | \$14,858          |   |
| Loans past due 90 days or more and still accruing interest | —                 | —                    | —                 |   |
| Restructured loans   | 191               | 225                  | 724               |   |
| Total nonperforming loans                                  | 9,607             | 16,745               | 15,582            |   |
| Other real estate  | 6,804             | 469                  | 455               |   |
| Total nonperforming assets                                 | \$16,411          | \$17,214             | \$16,037          |   |
| <br>   |                   |                      |                   |   |
| Total assets   | \$6,932,757       | \$5,645,662          | \$5,383,102       |   |
| Total loans  | 4,894,574         | 4,350,001            | 4,190,845         |   |
| Total loans plus other real estate                         | 5,023,881         | 4,350,470            | 4,191,300         |   |
| Nonperforming loans to total loans                         | 0.19              | % 0.38               | % 0.37            | % |
| Nonperforming assets to total loans plus other real estate | 0.33              | 0.40                 | 0.38              |   |
| Nonperforming assets to total assets                       | 0.24              | 0.30                 | 0.30              |   |
| Allowance for loan losses to nonperforming loans           | 449               | 260                  | 287               |   |



## 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 5 – Loans for more information on these loans.

Nonperforming loans based on loan type were as follows:

| (in thousands)                    | March<br>31,<br>2019 | December<br>31, 2018 | March<br>31,<br>2018 |
|-----------------------------------|----------------------|----------------------|----------------------|
| Commercial and industrial         | \$7,205              | \$ 12,950            | \$ 12,313            |
| Commercial real estate            | 1,995                | 1,206                | 1,167                |
| Construction and land development | —                    | —                    | —                    |
| Residential real estate           | 407                  | 2,277                | 1,777                |
| Consumer and other                | —                    | 312                  | 325                  |
| Total                             | \$9,607              | \$ 16,745            | \$ 15,582            |

The following table summarizes the changes in nonperforming loans:

| (in thousands)                          | Three months<br>ended March 31, |           |
|---|---------------------------------|-----------|
|   | 2019                            | 2018      |
| Nonperforming loans beginning of period | \$ 16,745                       | \$ 15,687 |
| Additions to nonaccrual loans           | 1,453                           | 1,429     |
| Additions to restructured loans         | —                               | 30        |
| Charge-offs                             | (2,135 )                        | (1,003 )  |
| Other principal reductions              | (4,947 )                        | (561 )    |
| Moved to other real estate              | (835 )                          | —         |
| Moved to performing                     | (674 )                          | —         |
| Nonperforming loans end of period       | \$ 9,607                        | \$ 15,582 |

## Other real estate

Other real estate was \$6.8 million at March 31, 2019 compared to \$0.5 million at March 31, 2018.

The following table summarizes the changes in other real estate:

| (in thousands)  | Three months<br>ended March<br>31, |       |
|---|------------------------------------|-------|
|   | 2019                               | 2018  |
| Other real estate beginning of period                           | \$469                              | \$498 |
| Additions and expenses capitalized to prepare property for sale | 1,372                              | —     |
| Additions from acquisition                                      | 4,963                              | —     |
| Writedowns in value   | —                                  | (43 ) |
| Other real estate end of period                                 | \$6,804                            | \$455 |

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 \$6.1 billion at March 31, 2019, compared to \$5.0 billion at December 31, 2018. The increase in liabilities was due to \$949 million of growth in total deposits primarily attributable to the acquisition of Trinity and a \$110 million increase in Federal Home Loan Bank advances, partially offset by a decrease of \$39 million in other borrowings.

## Deposits

| (in thousands)                        | March 31,<br>2019 | December 31,<br>2018 | Increase (decrease) |       |   |
|---------------------------------------|-------------------|----------------------|---------------------|-------|---|
| Demand deposits                       | \$1,186,508       | \$1,100,718          | \$85,790            | 7.8   | % |
| Interest-bearing transaction accounts | 1,389,826         | 1,037,684            | 352,142             | 33.9  | % |
| Money market accounts                 | 1,580,291         | 1,565,729            | 14,562              | 0.9   | % |
| Savings                               | 575,740           | 199,425              | 376,315             | 188.7 | % |
| Certificates of deposit:              |                   |                      |                     |       |   |
| Brokered                              | 180,788           | 198,981              | (18,193)            | (9.1) | % |
| Other                                 | 623,960           | 485,448              | 138,512             | 28.5  | % |
| Total deposits                        | \$5,537,113       | \$4,587,985          | \$949,128           | 20.7  | % |
| Non-time deposits / total deposits    | 85                | % 85                 |                     |       | % |
| Demand deposits / total deposits      | 21                | % 24                 |                     |       | % |

Total deposits at March 31, 2019 were \$5.5 billion, an increase of 21%, from December 31, 2018. The increase is primarily attributable to the acquisition of Trinity, partially offset by normal seasonal reductions with some of our corporate clients. The composition of our noninterest bearing deposits declined to 21% of total deposits at March 31, 2019 compared to 24% at December 31, 2018.

## Shareholders' Equity

Shareholders' equity totaled \$797.8 million at March 31, 2019, an increase of \$194.0 million from December 31, 2018. Significant activity during the three months ended March 31, 2019 was as follows:

- issuance of 4.0 million shares of common stock for the Trinity acquisition of \$171.9 million,
- net income of \$16.2 million,
- increase in fair value of securities of \$11.5 million,
- dividends paid on common shares of \$3.8 million, and
- issuance under equity compensation plans of \$1.9 million.

## Liquidity and Capital Resources

## Liquidity

The objective of liquidity management is to ensure we have the ability to generate sufficient cash or cash equivalents in a timely and cost-effective manner to meet our commitments as they become due. Typical demands on liquidity are run-off from demand deposits, maturing time deposits which are not renewed, and fundings under credit commitments

to customers. Funds are available from a number of sources, such as from the core deposit base and from loans and securities repayments and maturities.

Additionally, liquidity is provided from sales of the securities portfolio, fed fund lines with correspondent banks, 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 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). \$10 million of dividends have been paid to the parent company from the Bank in 2019. 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 \$25 million which is renewed through February 2020. 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 March 31, 2019, there were no outstanding balances under the Revolving Agreement.

The Company has a five-year term note for \$40 million issued in March 2019. The Company principally used the proceeds from the issuance of the note to fund the cash consideration at the closing of the acquisition of Trinity.

As of March 31, 2019, the Company had \$92 million of outstanding subordinated debentures as part of thirteen Trust Preferred Securities Pools which includes \$22 million acquired in the Trinity acquisition. 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 \$7 million, along with the Company's other available funding sources, will be sufficient to meet all projected cash needs for the remainder of 2019.

### Bank liquidity

The Bank has a variety of funding sources available to increase financial flexibility. In addition to amounts currently borrowed, at March 31, 2019, the Bank had borrowing capacity of \$500 million from the FHLB of Des Moines under blanket loan pledges, and has an additional \$1 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 million, and \$276 million of unsecured credit through the American Financial Exchange.

Total securities available for sale of \$1 billion at March 31, 2019, included \$443 million of securities that were pledged as collateral for deposits of public institutions, treasury, loan notes, and other requirements. The remaining \$656 million could be pledged or sold to enhance liquidity, if necessary. In addition, \$53 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 \$1.5 billion in unused commitments as of March 31, 2019. 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 March 31, 2019, and December 31, 2018, 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 March 31, 2019. 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 Bank's various capital ratios at the dates indicated:

| (in thousands)                                       | March 31,<br>2019 | December<br>31, 2018 | Well<br>Capitalized<br>Minimum<br>% |   |  |
|--|-------------------|----------------------|-------------------------------------|---|--|
| Total capital to risk-weighted assets                | 12.75             | % 12.26              | % 10.00                             | % |  |
| Tier 1 capital to risk-weighted assets               | 12.00             | 11.38                | 8.00                                |   |  |
| Common equity tier 1 capital to risk-weighted assets | 12.00             | 11.37                | 6.50                                |   |  |

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|   |           |           |      |
|---|-----------|-----------|------|
| Leverage ratio (Tier 1 capital to average assets) | 12.01     | 10.52     | 5.00 |
| Total risk-based capital                          | \$740,510 | \$611,197 |      |
| Tier 1 capital                                    | 696,910   | 567,296   |      |
| Common equity tier 1 capital                      | 696,853   | 567,239   |      |

45

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

| (in thousands)   | March 31,<br>2019 | December<br>31, 2018 | Well Capitalized Minimum % |
|--|-------------------|----------------------|----------------------------|
| Total capital to risk-weighted assets                  | 12.86             | % 13.02              | % N/A                      |
| Tier 1 capital to risk-weighted assets                 | 11.25             | 11.14                | N/A                        |
| Common equity tier 1 capital to risk-weighted assets   | 9.64              | 9.79                 | N/A                        |
| Leverage ratio (Tier 1 capital to average assets)      | 11.43             | 10.29                | N/A                        |
| Tangible common equity to tangible assets <sup>1</sup> | 8.35              | 8.66                 | N/A                        |
| Total risk-based capital                               | \$748,388         | \$650,859            |                            |
| Tier 1 capital   | 654,788           | 556,958              |                            |
| Common equity tier 1 capital                           | 561,131           | 489,301              |                            |

<sup>1</sup> 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 net interest margin, efficiency ratios, return on average assets, return on average equity, 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 net interest margin, core efficiency ratio, return on average assets, return on average equity, and return on average tangible common equity, collectively "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, which were acquired from the FDIC and previously covered by loss share agreements, and the 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 expenses directly related to non-core acquired loans. Core performance measures also exclude certain other income and expense items, such as merger-related expenses, 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 attached tables contain a reconciliation of these core performance measures to the GAAP measures. 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 |                      |                   |   |
|---|----------------------------|----------------------|-------------------|---|
|   | March 31,<br>2019          | December 31,<br>2018 | March 31,<br>2018 |   |
| Net interest income                                     | \$52,343                   | \$ 50,593            | \$46,171          |   |
| Less: Incremental accretion income                      | 1,157                      | 2,109                | 766               |   |
| Core net interest income                                | 51,186                     | 48,484               | 45,405            |   |
| Total noninterest income                                | 9,230                      | 10,702               | 9,542             |   |
| Less: Gain on sale of investment securities             | —                          | —                    | 9                 |   |
| Less: Other income from non-core acquired assets        | 365                        | 10                   | 1,013             |   |
| Less: Other non-core income                             | —                          | 26                   | —                 |   |
| Core noninterest income                                 | 8,865                      | 10,666               | 8,520             |   |
| Total core revenue                                      | 60,051                     | 59,150               | 53,925            |   |
| Total noninterest expense                               | 39,838                     | 30,747               | 29,143            |   |
| Less: Other expenses related to non-core acquired loans | 103                        | 40                   | 14                |   |
| Less: Merger related expenses                           | 7,270                      | 1,271                | —                 |   |
| Core noninterest expense                                | 32,465                     | 29,436               | 29,129            |   |
| Core efficiency ratio                                   | 54.06                      | % 49.77              | % 54.02           | % |

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

| (in thousands)                     | Three months ended |             |   |
|------------------------------------|--------------------|-------------|---|
|                                    | March 31,          |             |   |
|                                    | 2019               | 2018        |   |
| Net interest income                | \$52,595           | \$46,386    |   |
| Less: Incremental accretion income | 1,157              | 766         |   |
| Core net interest income           | \$51,438           | \$45,620    |   |
| Average earning assets             | \$5,510,489        | \$4,948,875 |   |
| Reported net interest margin       | 3.87               | % 3.80      | % |
| Core net interest margin           | 3.79               | % 3.74      | % |

## Tangible common equity ratio

| (in thousands)                            | March 31,   |             | December 31, |      |
|---|-------------|-------------|--------------|------|
|   | 2019        | 2018        | 2018         | 2018 |
| Total shareholders' equity                | \$797,835   | \$603,804   |              |      |
| Less: Goodwill                            | 207,632     | 117,345     |              |      |
| Less: Intangible assets                   | 31,048      | 8,553       |              |      |
| Tangible common equity                    | \$559,155   | \$477,906   |              |      |
| Total assets                              | \$6,932,757 | \$5,645,662 |              |      |
| Less: Goodwill                            | 207,632     | 117,345     |              |      |
| Less: Intangible assets                   | 31,048      | 8,553       |              |      |
| Tangible assets                           | \$6,694,077 | \$5,519,764 |              |      |
| Tangible common equity to tangible assets | 8.35        | % 8.66      | %            | %    |

Average Shareholders' Equity and Average Tangible Common Equity  
For the Quarter ended

| (\$ in thousands, except per share data) | Mar 31,<br>2019 | Dec 31,<br>2018 | Mar 31,<br>2018 |
|--|-----------------|-----------------|-----------------|
| Average shareholder's equity             | \$662,454       | \$597,864       | \$554,066       |
| Less: Average goodwill                   | 141,422         | 117,345         | 117,345         |
| Less: Average intangible assets          | 14,472          | 8,841           | 10,715          |
| Average tangible common equity           | 506,560         | 471,678         | 426,006         |



## Impact of Merger Related Expenses

|  | For the three months ended |                 |                 |
|--|----------------------------|-----------------|-----------------|
| (\$ in thousands, except per share data) | Mar 31,<br>2019            | Dec 31,<br>2018 | Mar 31,<br>2018 |
| Net income - GAAP                        | \$ 16,156                  | \$ 23,529       | \$ 20,921       |
| Merger-related expenses                  | 7,270                      | 1,271           | —               |
| Related tax effect                       | (1,535 )                   | (314 )          | —               |
| Adjusted net income - Non-GAAP           | \$ 21,891                  | \$ 24,486       | \$ 20,921       |
| <br>                                     |                            |                 |                 |
| Average assets                           | \$ 5,956,086               | \$ 5,518,740    | \$ 5,340,112    |
| ROAA - GAAP net income                   | 1.10                       | % 1.69          | % 1.59          |
| ROAA - Adjusted net income               | 1.49                       | 1.76            | 1.59            |
| <br>                                     |                            |                 |                 |
| Average shareholder's equity             | \$ 662,454                 | \$ 597,864      | \$ 554,066      |
| ROAE - GAAP net income                   | 9.89                       | % 15.61         | % 15.31         |
| ROAE - Adjusted net income               | 13.40                      | 16.25           | 15.31           |
| <br>                                     |                            |                 |                 |
| Average tangible common equity           | \$ 506,560                 | \$ 471,678      | \$ 426,006      |
| ROATCE - GAAP net income                 | 12.93                      | % 19.79         | % 19.92         |
| ROATCE - Adjusted net income             | 17.53                      | 20.60           | 19.92           |

## 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, 2018.

## 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 300 basis point downward shock scenario is not shown):

| Rate Shock | Annual % change<br>in net interest income |
|------------|---|
| + 300 bp   | 7.5%                                      |
| + 200 bp   | 5.1%                                      |
| + 100 bp   | 2.6%                                      |
| - 100 bp   | (4.7)%                                    |
| - 200 bp   | (13.1)%                                   |

In addition to the rate shocks shown in the table above, the Company models net interest income under various dynamic interest rate scenarios. Generally, 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 March 31, 2019. 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 March 31, 2019 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

In connection with its acquisition of Trinity/LANB, the Company, as successor-in-interest to Trinity, is a party to certain consolidated proceedings pending in the First Judicial Circuit Court for the State of New Mexico, styled Trinity Capital Corporation, et al v. Atlantic Specialty Ins. Co., et al. The lawsuit seeks declaratory relief, defense costs, and damages related to claims for bad faith breach of insurance contracts and violations of New Mexico insurance statutes. The insurance coverage at issue in the lawsuit relates to regulatory proceedings commenced by the OCC against LANB and the SEC against Trinity following an OCC bank examination in 2012. At the time, Trinity had in place a Director and Officer insurance policy that included coverage for the cost of defending against certain regulatory proceedings. Coverage was denied by the insurance company based on an alleged failure to give timely notice of a claim. Former Trinity/LANB officers, William Enloe, Jill Cook and Mark Pierce, also filed suits against the insurance company and Trinity/LANB which have been consolidated in the proceeding. The claims of William Enloe against Trinity/LANB relate to an alleged failure to provide timely notice to the insurance company. The claims of Jill Cook and Mark Pierce relate to indemnification and alleged wrongful termination. The officers' claims against Trinity/LANB have been stayed pending resolution of the claims against the insurance company. In November 2018, Jill Cook settled her claims with the insurance company.

In December 2018, the Court granted summary judgment in favor of Trinity/LANB finding that they had delivered timely notice to the insurance company as a matter of law. The insurance company has filed a motion to reconsider this ruling which is expected to be heard and/or ruled on during the second quarter of 2019. The Company intends to vigorously defend the summary judgment ruling. If successful, the Company will next seek to prove up its damages at trial which is scheduled for November 2019. The Company also plans to vigorously defend itself against the officers' claims. Due to the complex nature of this lawsuit, the outcome and timing of ultimate resolution and recovery by the Company is uncertain.

In addition, 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.

51

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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, 2018. 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

None

ITEM 3: DEFAULTS UPON SENIOR SECURITIES

None

ITEM 4: MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5: OTHER INFORMATION

None

53

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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.

- Agreement and Plan of Merger, among Enterprise Financial Services Corp, Enterprise Bank & Trust, Trinity Capital Corporation and Los Alamos National Bank, dated November 1, 2018 (incorporated herein by reference to Exhibit 2.1 to Registrant's Current Report on Form 8-K filed on November 2, 2018 (File No. 001-15373)).
- 2.1 Agreement and Plan of Merger, among Enterprise Financial Services Corp, Enterprise Bank & Trust, Trinity Capital Corporation and Los Alamos National Bank, dated November 1, 2018 (incorporated herein by reference to Exhibit 2.1 to Registrant's Current Report on Form 8-K filed on November 2, 2018 (File No. 001-15373)).
- 3.1 Certificate of Incorporation of Registrant, (incorporated herein by reference to Exhibit 3.1 of Registrant's Registration Statement on Form S-1 filed on December 16, 1996 (File No. 333-14737)).
- 3.2 Amendment to the Certificate of Incorporation of Registrant (incorporated herein by reference to Exhibit 4.2 to Registrant's Registration Statement on Form S-8 filed on July 1, 1999 (File No. 333-82087)).
- 3.3 Amendment to the Certificate of Incorporation of Registrant (incorporated herein by reference to Exhibit 3.1 to Registrant's Quarterly Report on Form 10-Q for the period ending September 30, 1999 (File No. 001-15373)).
- 3.4 Amendment to the Certificate of Incorporation of Registrant (incorporated herein by reference to Exhibit 99.2 to Registrant's Current Report on Form 8-K filed on April 30, 2002 (File No. 001-15373)).
- 3.5 Amendment to the Certificate of Incorporation of Registrant (incorporated herein by reference to Appendix A to Registrant's Proxy Statement on Form 14-A filed on November 20, 2008 (File No. 001-15373)).
- 3.6 Certificate of Designations of Registrant for Fixed Rate Cumulative Perpetual Preferred Stock, Series A, dated December 17, 2008 (incorporated herein by reference to Exhibit 3.1 to Registrant's Current Report on Form 8-K filed on December 23, 2008 (File No. 001-15373)).
- 3.7 Amendment to the Certificate of Incorporation of Registrant (incorporated herein by reference to Exhibit 3.1 to the Registrant's Quarterly Report on Form 10-Q for the period ending June 30, 2014 (File No. 001-15373)).
- 3.8 Amended and Restated Bylaws of Registrant (incorporated herein by reference to Exhibit 3.1 to Registrant's Current Report on Form 8-K filed on June 12, 2015 (File No. 001-15373)).
- \*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.

101 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 March 31, 2019, is formatted in XBRL interactive data files: (i) Consolidated Balance Sheet at March 31, 2019 and December 31, 2018; (ii) Consolidated Statement of Income for the three months ended March 31, 2019 and 2018; (iii) Consolidated Statement

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of Comprehensive Income for the three months ended March 31, 2019 and 2018; (iv) Consolidated Statement of Changes in Equity for the three months ended March 31, 2019 and 2018; (v) Consolidated Statement of Cash Flows for the three months ended March 31, 2019 and 2018; 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.

54

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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 April 30, 2019.

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